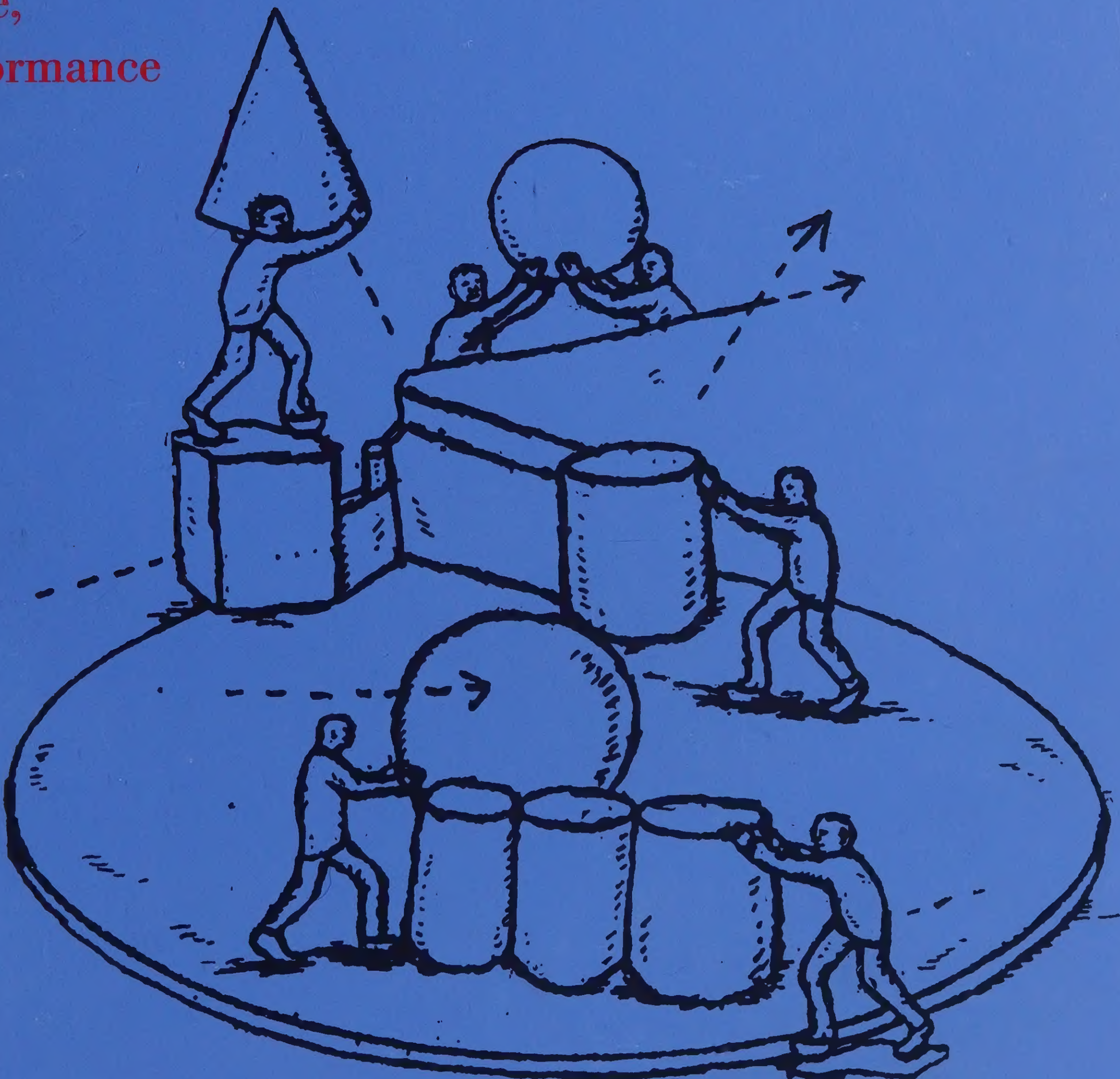
Alberta Energy Company Ltd.
1997 Annual Report

AR54

Growth, Value, Performance



AEC

Growth, Value, Performance

Depicted on the cover and throughout this annual report are illustrations and photographs that symbolize AEC's growth and value-creation strategy driven by high performing teams of exceptional people. This is how we did in 1997 ☞

Who is Alberta Energy Company?

A leading Canadian gas and oil exploration and production (E&P) company, AEC's E&P asset base comprises 93 percent of natural gas, light oil and natural gas liquids; and the Company has unique midstream oil pipeline and natural gas storage and processing assets ▶ organized into six entrepreneurial business units supported by a small corporate group ▶ AEC East and AEC West, western Canadian exploration and production business units each have an asset base comparable to other senior oil and gas producers ▶ AEC Syncrude business unit is the second largest owner of Canada's largest oil producer ▶ AEC International exploration and production business unit operates mainly in Argentina ▶ AEC Pipelines & Gas Processing business unit is the largest transporter of oil within Alberta ▶ AEC Gas Storage & Hub Services business unit is the largest producer-operated natural gas storage facility in North America ▶ stock market capitalization exceeding $3.4 billion ▶ widely held, very liquid stock, listed on the Toronto and Montreal Stock Exchanges (AEC) and on the New York Stock Exchange (AOG).

In the interest of providing AEC shareholders and potential investors with information regarding the Company, including management's assessment of the Company's future plans and operations, certain statements and graphs throughout this Report are 'forward-looking statements', within the meaning of Section 21E of the United States Securities Exchange Act of 1934, as amended, and represent the Company's internal projections, expectations or beliefs concerning, among other things, future operating results and various components thereof or the Company's future economic performance. The projections, estimates and beliefs contained in such forward-looking statements necessarily involve known and unknown risks and uncertainties which may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things: volatility of oil and gas prices; product supply and demand; market competition; risks inherent in the Company's domestic and foreign oil and gas operations; imprecision of reserves estimates; the Company's ability to replace and expand oil and gas reserves; the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations; the Company's ability to access external sources of debt and equity capital, and such other risks and uncertainties described from time to time in the Company's reports and filings with the Canadian securities authorities and the U.S. Securities and Exchange Commission. Accordingly, shareholders and potential investors are cautioned that events or circumstances could cause actual results to differ materially from those predicted.

FINANCIAL	Cash flow from operations ($ millions)
	$ per share – basic
	$ per share – fully diluted
	Net earnings ($ millions)
	$ per share – basic
	$ per share – fully diluted
	Year-end long-term debt ($ millions)
	Exploration & Production
	Transportation, Storage and Processing
	Net debt-to-equity ratio – corporate
	Exploration & Production
	Transportation, Storage and Processing
	Net debt-to-cash flow ratio – Exploration &
OPERATING	Produced natural gas sales (million cubic feet per day
	Total liquid sales (barrels per day)
	Conventional crude oil & natural gas liqu
	Syncrude sales (barrels per day)
	Conventional reserve additions (proven plus probab
	Conventional production replacement

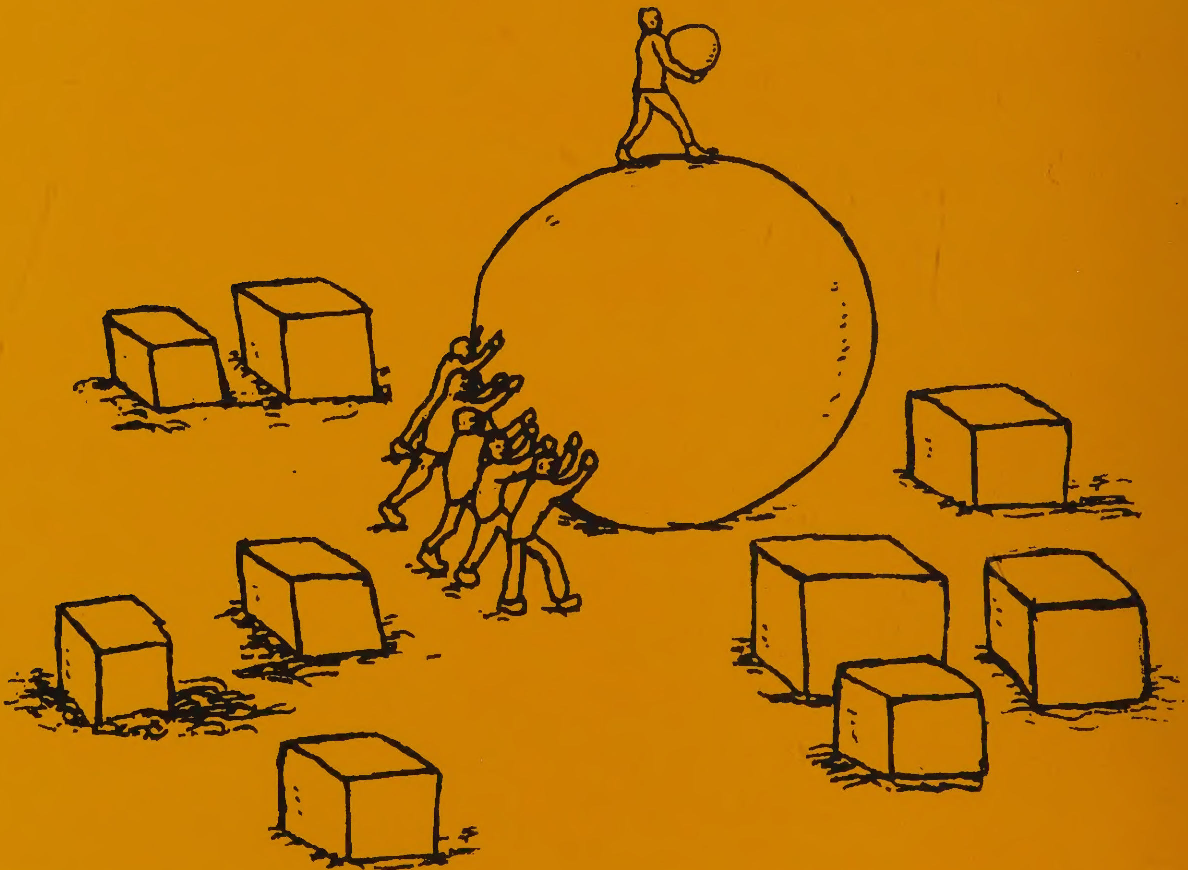
	97	96	95	compound growth rate
	544.7	411.9	270.7	42%
	4.87	3.93	3.61	16%
	4.67	3.82	3.51	15%
	199.7	68.0	110.2	35%
	1.78	0.65	1.47	10%
	1.73	0.65	1.44	10%
	1,017.1	968.3	384.4	
	519.4	367.0	153.5	
	497.7	601.3	230.9	
	29:71	32:68	25:75	
	20:80	16:84	13:87	
	60:40	89:11	64:36	
ıction (times)	1.1	1.0	0.8	
	575	515	320	34%
	58,940	53,155	42,153	18%
ıles (barrels per day)	30,493	25,559	14,330	46%
	28,447	27,596	27,823	1%
on cubic feet equivalent, 10:1)	1,156	682	289	
	362%	246%	175%	

Here are our assets

High quality facilities which produced 116,000 barrels of oil equivalent per day in 1997 ▶ one of the largest and longest life reserve bases in Canada ▶ 3.7 trillion cubic feet of natural gas with a 1997 reserve life index of 17 years ▶ 122 million barrels of conventional oil and natural gas liquids with a reserve life index of 11 years ▶ third largest exploration land base in western Canada ▶ highly concentrated dominant operator in core areas with an average working interest of 87 percent ▶ unique midstream investments in transportation, gas storage and processing having a current market value of approximately $1.2 billion ▶ a solid financial footing with low net debt:equity of 29:71 ▶ staff consisting of talented, enthusiastic, entrepreneurial people who are all shareholders of the Company.

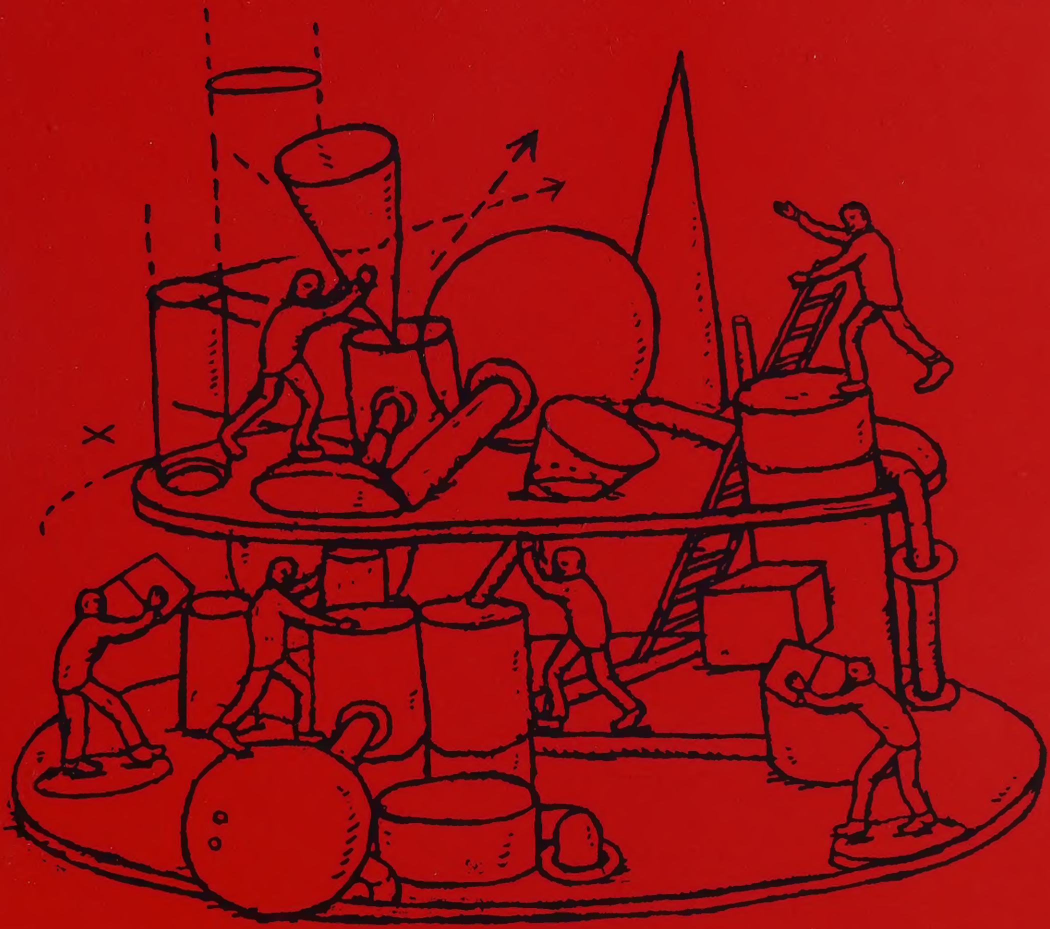
Here is our strategy

Achieve top quartile performance ▸ target growth rates of 10 percent on a sustained basis, with a 'stretch target' of 15 percent, for underlying asset value, for production and reserves in the Exploration and Production (E&P) Group and for asset value and cash flow in the Transportation, Storage and Processing (TSP) Group ▸ high growth, high performance business units possessing core competencies which make them dominant top quartile competitors where they operate ▸ maintain financial strength and a conservative balance sheet allowing flexibility to finance growth and to position AEC for counter-cyclical investment opportunities ▸ base investment decisions upon realistic full-cycle economics rather than short-term cash flow returns ▸ be a leader in terms of finding and development, general and administrative and operating cost performance ▸ maximize natural gas reserves, production facilities and exploration land to take advantage of gas export pipeline expansion in the fourth quarter of 1998 ▸ grow light oil and natural gas liquids through exploration and expansion of Syncrude ▸ continue to evaluate, optimize technology and design development plans for AEC's huge heavy oil holdings while minimizing investment until market conditions improve ▸ further grow AEC Pipelines investments with emphasis on northeastern Alberta synthetic and heavy oil region ▸ build an international exploration and production business unit of substantial size over a five-year period.



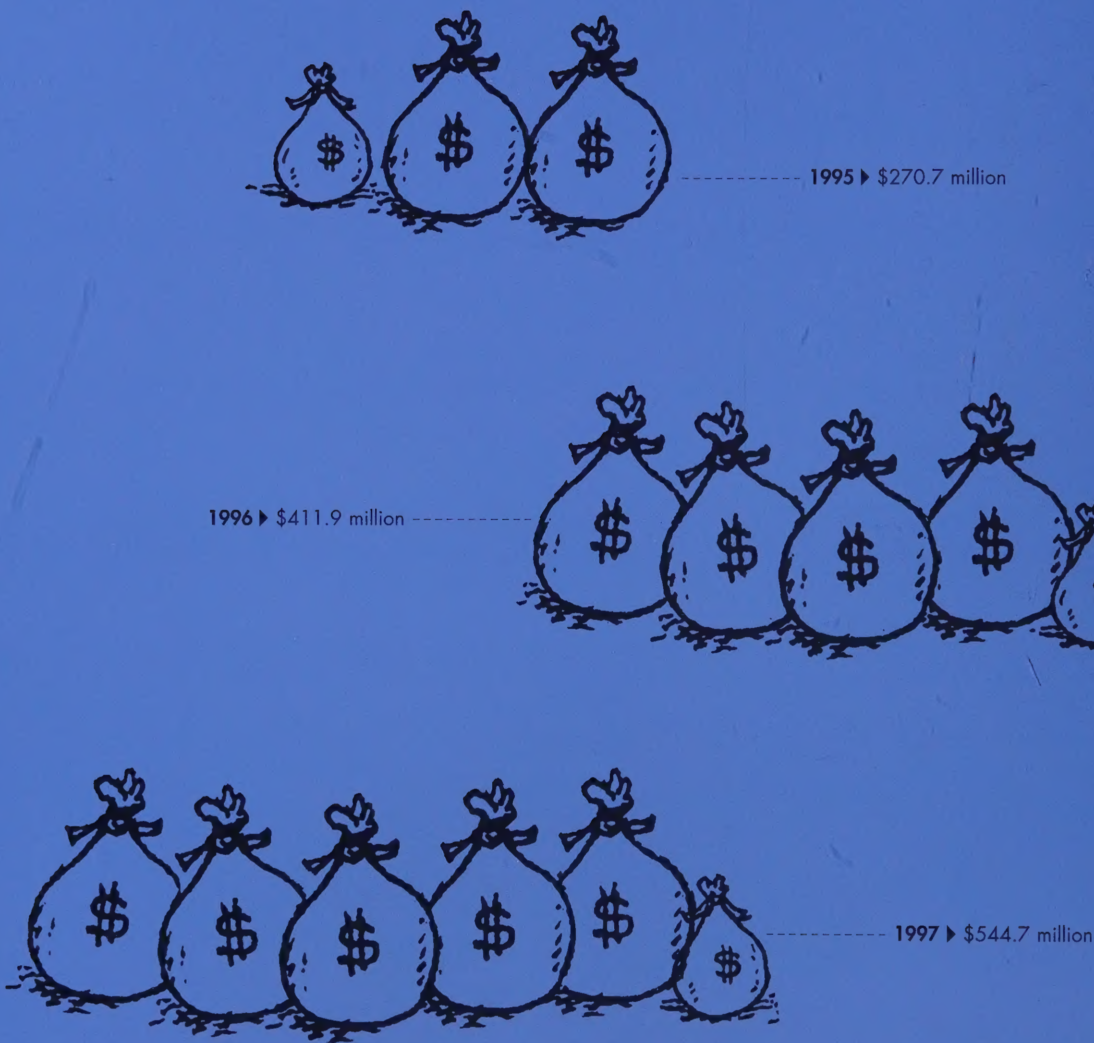
How we are different

An oil and gas company made up of six strong business units, each with a high growth, value creation mandate and each encouraging 'outside the box' entrepreneurial thinking ▸ exceptionally strong underlying asset base, including high quality, long life reserves evaluated by independent engineers ▸ high growth natural gas producer with AEC controlled land, gathering system and processing position providing dominance in AEC focus areas ▸ very large exploration land position providing broad exposure to shallow, intermediate and deep exploration prospects across the Western Canadian Sedimentary Basin ▸ strong light oil growth outlook through Syncrude ownership ▸ midstream business units which enhance market access and target a growing stream of operating cash flow largely independent of commodity price variations ▸ low cost heavy oil producer with very large future growth potential.



How we added value in 1997

Achieved record cash flow ▸ increased gas sales 12 percent to 575 million cubic feet per day and expanded production facilities for more growth in 1998 ▸ increased Canadian conventional oil and natural gas liquids production 18 percent to 28,810 barrels per day ▸ increased total liquids sales 11 percent to 58,940 barrels per day ▸ increased drilling 4 percent to 477 wells with a success rate of 89 percent ▸ increased exploration land holdings in western Canada 45 percent to 6.1 million net acres ▸ replaced Canadian conventional production by 362 percent, or 1.2 trillion cubic feet equivalent ▸ reduced conventional general and administrative expenses by 33 percent per barrel of oil equivalent ▸ obtained proceeds of $300 million through AEC Pipelines, L.P. initial public offering, and established a market value which is twice the invested capital ▸ doubled pipelines investment with commissioning of Express System ▸ new investment incentive terms for Syncrude, added $17 million to 1997 cash flow ▸ participated in Syncrude expansion to double production and reduce costs ▸ commenced testing of SAGD heavy oil recovery technology at Primrose.

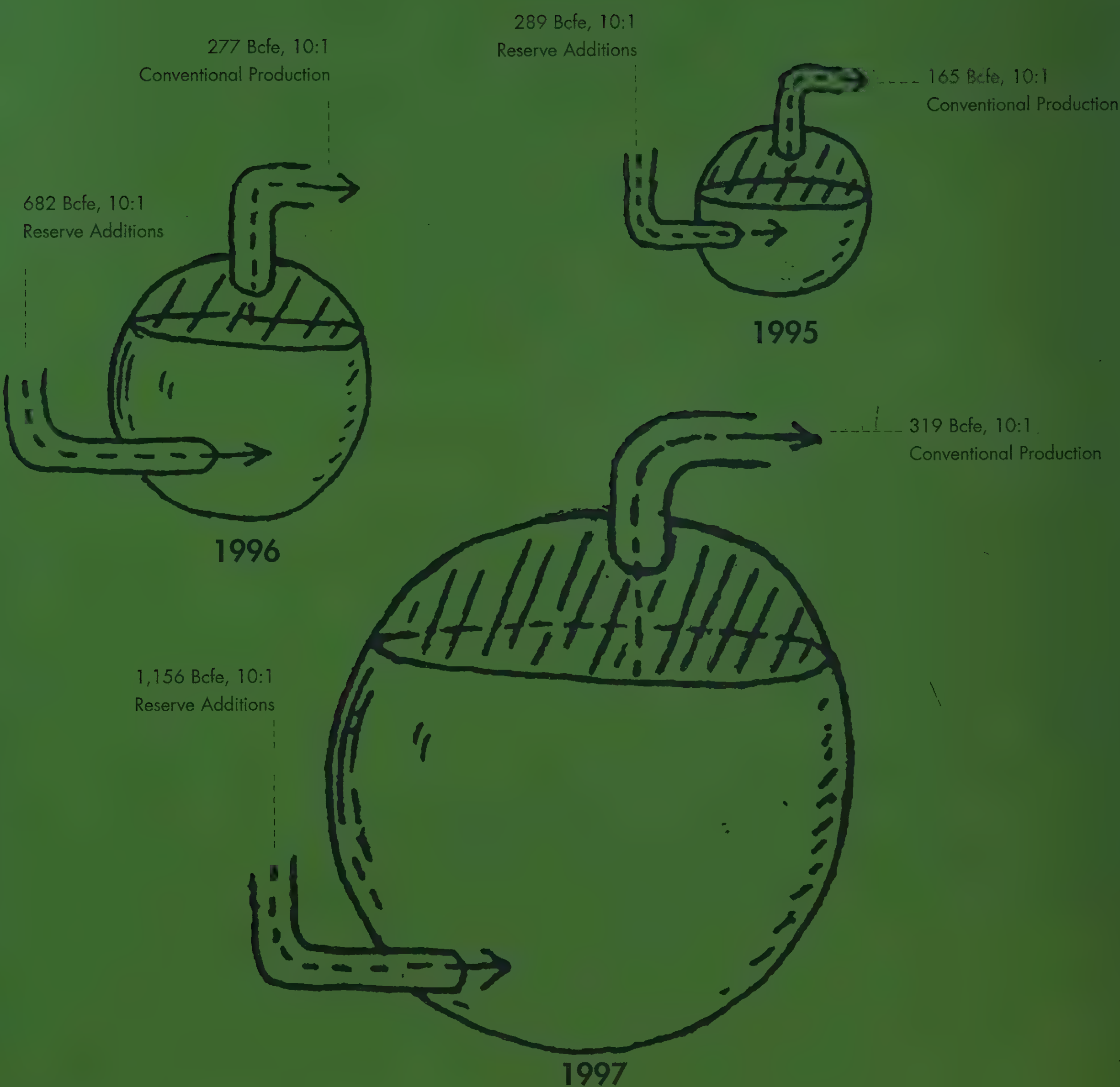


Cash flow from operations

Cash flow from operations in 1997 grew 32 percent to $545 million. The major factors generating this growth were oil and gas sales increases, higher prices and growth in cash flow from the TSP group as a result of the completion of the Express Pipeline.

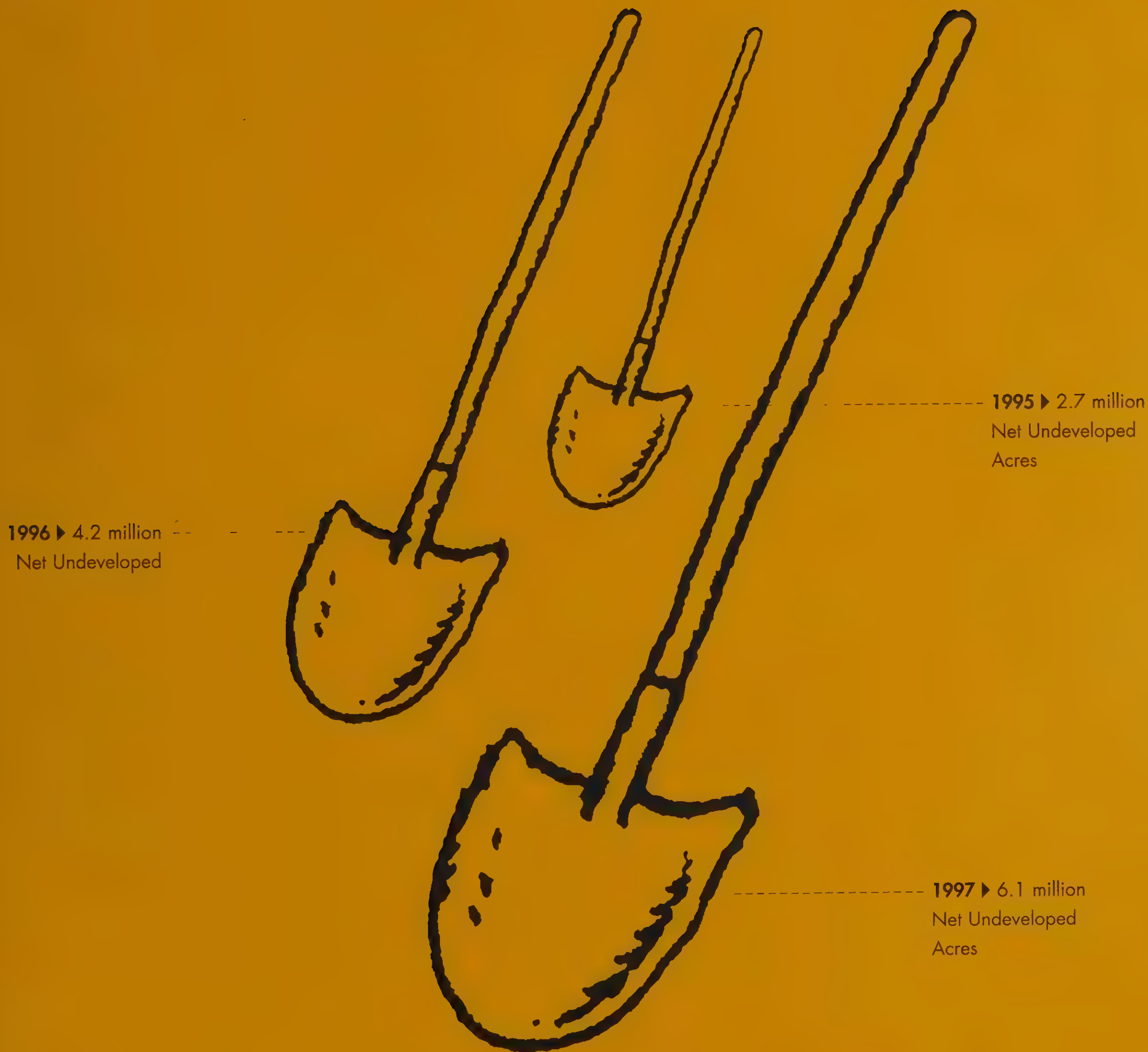
Sales growth

Gas sales increased 12 percent due to new facilities at Primrose, expansion of the Hythe gas plant and a full year's operation at the Sexsmith gas plants. Liquids sales grew 11 percent, principally due to further development of oil reserves on the Suffield Block. AEC's strategy in 1998 is to have the largest gas production, reserves, exploration land and gas storage position possible as new pipeline expansions are completed to access the higher priced continental gas market later this year. 1998 gas sales are forecast to grow 22 percent to 700 million cubic feet per day. For every $0.10 per thousand cubic feet increase in gas prices, AEC's cash flow increases by $22 million. Liquids sales growth in 1998 will be restricted to about seven percent, reflecting weak oil prices. On a barrel of oil equivalent basis, 90 percent of AEC's 1998 production forecast is gas, light oil and natural gas liquids.



Conventional production replacement

In 1997, AEC's conventional reserve additions were 1.2 trillion cubic feet equivalent, the entire reserve base of a typical 'larger intermediate' oil and gas company. This reserve replacement was 362 percent of production, all achieved through the drill bit. Natural gas constituted 77 percent of reserve additions. The Company reduced finding and development costs to $5.81 per barrel of oil equivalent, on a proven and probable basis despite industry wide increases in land, supply and service costs. These costs include $1.54 per barrel of oil equivalent for exploration land costs.

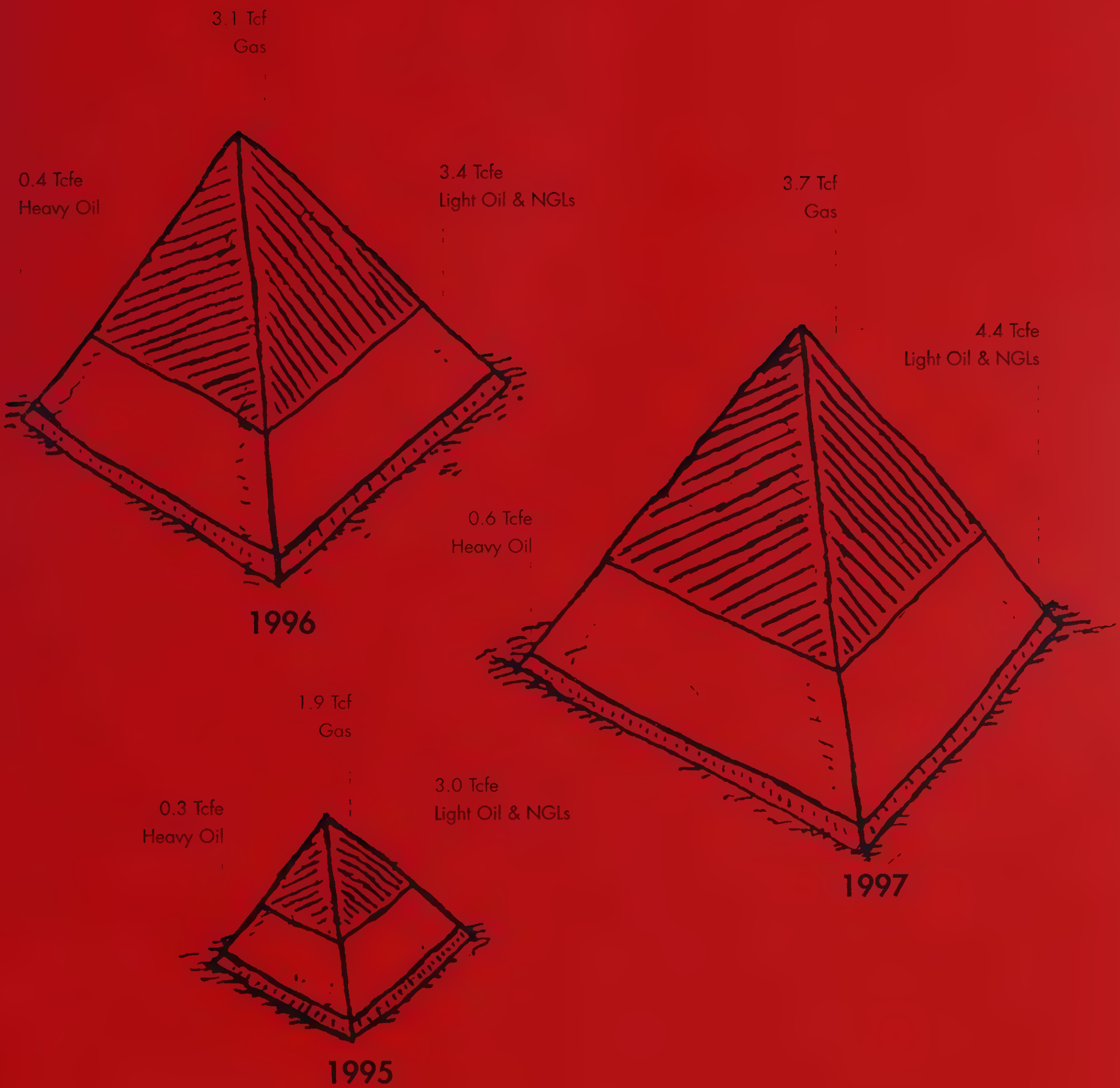


Exploration land base growth

AEC invested $178 million to add 1.9 million net acres, increasing its western Canadian exploration land base by 45 percent to 6.1 million net acres. This provides a basis for continuing growth through exploration in 1998 and beyond. AEC now has the third largest exploration land base in western Canada, the majority of which is gas prone. These figures do not include AEC's holdings of more than 2.9 million net acres of exploration land in Argentina and Thailand, bringing total exploration land to 9.0 million net acres. The 1998 drilling program of 500 wells provides exploration exposure to a wide range of shallow, intermediate and deep exploration plays.

Capital investment

To fund its growth strategy, AEC invested 181 percent of its cash flow in 1997. The Company's balance sheet at year-end had a healthy net debt-to-equity ratio of 29:71. Exploration and Production net debt-to-cash flow was a very strong 1.1x. This solid financial base enables AEC to complete its $800 million 1998 capital program despite weak commodity prices.



Total reserves growth

These pyramids symbolize the solid underlying asset base of the Company. The reserves base is dominantly natural gas, light oil and natural gas liquids. In 1997, AEC's gas reserves, after production, grew 20 percent. A fundamental attribute of an investment in AEC is the strength of the underlying asset base. Each AEC Common Share has nearly 8 barrels of oil equivalent of reserves supporting it. On a market value basis, this is about 50 percent more than the industry average, and even more noteworthy given that AEC also has substantial midstream holdings in oil pipelines, and in gas storage and processing.

TSP operating cash flow

The Transportation, Storage and Processing Group, AEC's midstream business units, provide growing investment returns which do not fluctuate with commodity prices, adding financial resilience and strength to AEC. Operating cash flow for the TSP Group grew 19 percent in 1997. The Express Pipeline System was commissioned in February 1997. This investment doubled the asset base. TSP operating cash flow for 1998 is forecast to grow to $115 million.

Here is how we plan to add more value in 1998

Production and operating targets which would ▶ increase gas sales a further 22 percent to 700 million cubic feet per day ▶ increase gas production and storage capacity, positioning for expected 1999 gas price upside ▶ increase total liquids sales seven percent to 63,000 barrels per day ▶ increase conventional reserves by drilling approximately 500 exploration and development wells ▶ proceed with Syncrude expansion ▶ continue pilot development of steam-assisted gravity drainage (SAGD) heavy oil recovery technology at Primrose ▶ begin expansion of Alberta Oil Sands Pipeline to accommodate Syncrude growth ▶ conduct an expanded international exploration program.

fellow shareholders . . . 1997: A YEAR OF ACCOMPLISHMENT Last year's Annual Report presented the considerable progress our Company made during the first year of a new high performance, high growth strategic plan. I am very pleased to report that 1997 was a year of outstanding progress towards our goal of being the leading senior independent in the Canadian oil and gas industry.

GROWTH, VALUE, PERFORMANCE The investment community generally categorizes companies as being either "growth" companies or "value" companies. AEC provides investors with both by building sustainable growth upon a foundation of strong asset value. This is clearly evidenced by the following strategic objectives:

- target growth rates of 10 percent with a 'stretch target' of 15 percent. In 1997, barrel of oil equivalent production grew by 14 percent, conventional Exploration and Production (E&P) reserves increased by 17 percent and Transportation, Storage and Processing (TSP) assets increased by 23 percent
- a longer reserve life index than the industry average
- large, focused, dominant positions in exploration land, reserves and production facilities
- Syncrude ownership providing growing production, decreasing costs, and increasing underlying value
- a substantial midstream (TSP) business providing a growing source of cash flow largely independent of commodity price fluctuations, while also enhancing market access for our E&P business units.

AEC strives to avoid the herd mentality which seems to pervade our industry and many others. Following the successful merger with Conwest Exploration at the bottom of the last commodity price cycle, AEC stayed away from the overheated acquisition market in favour of a highly expanded exploration program. We kept our heads, and our drill bits, down. We provided our talented exploration and production teams with the support and capital needed to demonstrate their capabilities. And they delivered.

1997 ACCOMPLISHMENTS SET STAGE FOR 1998 PERFORMANCE I am very proud of the performance of AEC's people in 1997. Some of their achievements are:

- Conventional reserve additions totalled 1.2 trillion cubic feet equivalent, which represents 28 percent of our previous conventional reserve base. These reserve additions were accomplished entirely through the drill bit. It's interesting to note that AEC's 1997 reserve additions are larger than the entire reserve base of the vast majority of companies in the Canadian oil and gas industry.
- Reserve additions amounted to 362 percent of production, extending AEC's reserve life indices to 17 years for natural gas and 11 years for conventional liquids. This does not include the life index of AEC's Syncrude proven reserves, which at last count had grown to 37 years. These exceptional reserve life indices provide a platform for future growth.
- AEC's largest-ever 'in the ground' E&P investment included 477 wells with an average working interest of 82 percent and a success rate of 89 percent, as well as net exploration land increases of 1.9 million net acres. I expect that this was the industry's largest land addition program in 1997 and it makes AEC the third largest exploration land owner in Western Canada, with 6.1 million net acres.
- Finding and development costs decreased 11 percent, to $5.81 per barrel of oil equivalent (BOE). These costs include our $1.54/BOE

Building sustainable growth upon a foundation of strong asset value

investment in new exploration land and were achieved at a time of industry-wide supply and service cost increases.

- Sales increased 11 percent on a BOE basis, including a 12 percent increase in natural gas sales and an 11 percent increase in liquids sales.
- In the second year since our major reorganization, AEC's new E&P business units and downsized head office groups reduced G&A costs per BOE of conventional production by 33 percent.
- In the midstream TSP group, the new Express/Platte Pipeline System was completed and placed on stream, offering much-needed oil transportation access for Canadian producers.
- AEC created one of Canada's first pipeline limited partnerships, resulting in proceeds of $300 million. AEC retained a 70 percent interest and operatorship. This also established an $820 million market value for AEC's share of these pipeline assets, or approximately twice the book value.
- AECO C, Canada's dominant natural gas storage and market hub, achieved record throughput and entered into enhanced contractual arrangements.
- Significant progress was made in the development of the Wild Goose Gas Storage project, California's first independent non-utility storage facility.
- AEC's exploration land position in Argentina was expanded substantially.
- Our financial teams completed an innovative $103 million equipment-leasing program.
- Although AEC's capital expenditures were 181 percent of cash flow, AEC's key financial measures remain very strong with E&P net debt-to-cash flow at 1.1 times and corporate net debt-to-equity at 29:71.

362%

Conventional reserve additions of 1.2 Tcfe were more than triple 1997 production

DISAPPOINTING ASPECTS OF 1997

1997 was an outstanding year for AEC but it's important for shareholders to know the things that could have gone better. Here are the most important ones:

- During the year, AEC decreased its sales targets, partially due to the sale of some assets, resulting in a final sales level of 93 percent of the original target. There are several other reasons, common to the industry, such as very difficult winter and spring weather conditions and a tight supply of rigs which made it hard to make up for weather delays. Operational problems in our new Sexsmith sour gas plant also impacted throughput.
- Weakening international oil prices and widening heavy oil differentials, late in 1997, resulted in reconsideration of AEC's heavy oil growth plans.
- AEC and its partner, Husky Oil, chose to defer regulatory review of the Lakeland south heavy oil pipeline due to insufficient shipper commitments.
- Operational problems on the Platte Pipeline resulted in lower than expected throughputs on the Express Pipeline System.
- AEC incurred write-downs in its international E&P operations as we chose to withdraw from further exploration in Peru and Trinidad, and a ceiling test lowered our cost base in Argentina.

KEY OBJECTIVES FOR 1998 Capital priorities for 1998 will emphasize strong growth in natural gas and continued growth in light liquids, while positioning AEC for future growth in our midstream TSP group, international E&P and heavy oil.

AEC has established a capital budget for 1998 in the $800 million range.

More than half of the 1998 capital budget is allocated to natural gas investments where our strategy is to be in the strongest possible

reserves, exploration land, production capacity and gas storage position by late 1998. We plan to carry out another very large natural gas exploration and development program on AEC's much expanded land and reserve base to provide a platform for further growth. We will proceed with development of new gas storage facilities in Alberta and California. Natural gas sales are targeted to increase 22 percent to approximately 700 million cubic feet per day.

Approximately 21 percent of our capital budget will be invested in growth of domestic light liquids production and reserves. Capital will be invested in Syncrude's first year of a 10-year plan to double production and lower operating costs. AEC West and AEC East will continue to explore and develop conventional light oil and natural gas liquids reserves. We are currently targeting an increase in light liquids production of six percent to approximately 49,000 barrels per day.

Approximately nine percent of capital will be invested in AEC's pipelines and gas processing business unit. The emphasis here will be on the initial commitments for a $220 million expansion of the Alberta Oil Sands Pipeline to be constructed in 1999.

Approximately 10 percent of capital is earmarked for international exploration and development. AEC has established a medium-term goal to create a sizeable international business unit which offers upside potential to AEC shareholders. Prime focus in 1998 will be to build upon AEC's position in Argentina through a strengthened exploration drilling program, and to conduct seismic and drilling on AEC's newly established Australian exploration concessions. Opportunities will also be examined in Australia and North Africa, although it should be emphasized that AEC's international efforts will focus only on a small group of countries.

↑700

We are targeting natural gas sales to increase 22 percent to 700 million cubic feet per day

Approximately nine percent of 1998 capital will be invested in heavy oil. AEC's heavy oil holdings are ideally positioned at a time when current heavy oil prices are weak, but the medium-term outlook appears to be strong. Targeted production for 1998 is to maintain 1997 levels of 14,500 barrels per day, or 11 percent of AEC's 1998 BOE production. The $4.00 per barrel operating cost of this oil is among the lowest in the industry. AEC's medium-term, heavy oil growth potential is outstanding due to our conventional reserves at Suffield and Pelican Lake, and our huge thermal development potential at Primrose. During 1998, AEC will commence initial development drilling at Pelican Lake and continue the Primrose steam assisted gravity drainage (SAGD) testing. We are encouraged by the performance of the Primrose SAGD pilot to date. Production rates from AEC's first well-pair have been 1,000 barrels per day. At this point, it appears that AEC's Primrose SAGD holdings have the potential to support several commercial projects with combined production in excess of 100,000 barrels per day.

RESOURCEFUL PEOPLE MAKE SUCCESSFUL TEAMS Elsewhere, I have reported on some of the key differences between AEC and our competitors. These include an exceptional set of E&P assets, our unique midstream TSP holdings, our financial strength, a counter-cyclical strategy and a value-based growth philosophy as well as a semi-autonomous business unit structure which fosters entrepreneurship, ownership of objectives and accountability, plus a small corporate head office that adds value, not bureaucracy.

None of this would be effective without talented, dedicated, competitive people who strive to achieve their stretch targets, and to

place AEC among the highest performing companies. The key to AEC's success has been our ability to retain and recruit outstanding people: people who are better at their jobs than our competition, and who have a passion for what they do. While AEC's success at this is reflected in this Annual Report, a couple of other statistics add to the story.

In 1997, at a time of extreme competition for qualified people in our industry, AEC's voluntary turnover rate of four percent was among the industry's lowest, and half the industry average. AEC's reputation as a great place to work helped us add 'new blood' as the Company grew, so that 20 percent of our current workforce consists of highly qualified people who have been recruited over the past year. All employees are shareholders with a personal interest in growing the value of AEC shares.

On behalf of AEC's management team and Board, I say to all of AEC's people "Well done and thank you. On to the next challenge!"

THE BUSINESS ENVIRONMENT/1998 OUTLOOK As this report goes to press, world oil prices are weak and the outlook for world oil supply and demand is for further weakness due to a combination of the Asian economic trauma and increased OPEC production. Natural gas prices are suffering from an El Niño winter and continued shortage of export pipeline capacity to the United States. While the outlook for world oil prices is difficult to predict, we do have reason to be optimistic about future natural gas prices. New gas pipeline capacity coming on stream in late 1998, combined with the likely end of the El Niño effect, bodes well for gas prices and markets late in 1998. AEC's strategy is to be one of the most strongly positioned senior producers to benefit from this very major shift in Canadian gas markets and prices.

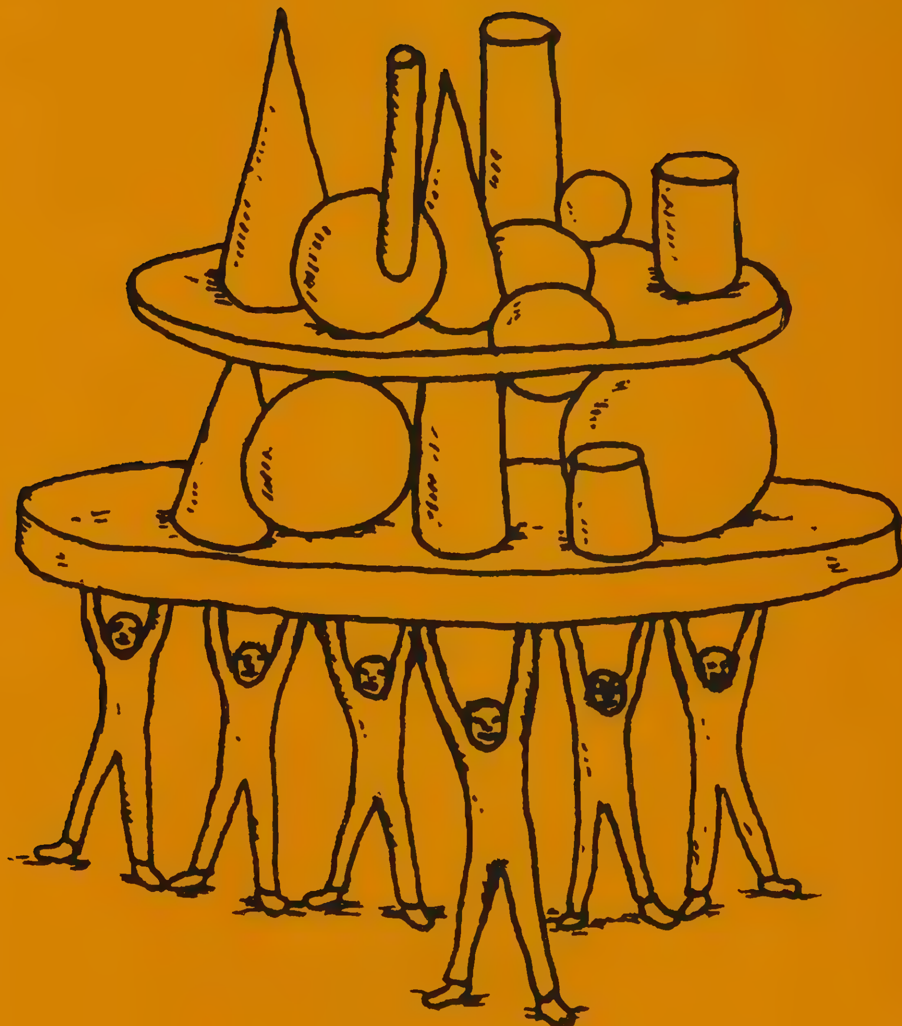
100%

All employees are shareholders with a personal interest in growing the value of AEC shares

I expect that 1998 will see a continuation of industry consolidation through mergers, acquisitions and asset sales. Following our counter-cyclical approach, AEC has stayed out of the overheated asset market of the past two years. It's possible that 1998 could be a year for AEC to participate in selected asset purchases, if all of the right characteristics can be found: operational fit, upside potential and value. These are always big "ifs", so it is important that we not take our eyes off the objective of delivering growth in shareholder value through grassroots exploration and development, and pursuit of our internally generated midstream opportunities.

In challenging times, relative strengths become more evident and more important. AEC's vision is to build a Company with a solid foundation of capable people and solid long-life reserves, and to be a leader in grassroots exploration. Our large concentrated land and reserve base enables us to dominate in our operating areas. AEC will continue to own a large interest in Syncrude. We also have a unique growing midstream business. This vision is underpinned by a very solid balance sheet. As 1998 progresses, we believe the fundamental value, performance and growth potential of your Company will become even more recognized by investors.

Gwyn Morgan
President and Chief Executive Officer
February 18, 1998



The strength of our business units

High performance, growth-oriented, dominant, focused asset positions ▶ core competencies make our business units top quartile competitors ▶ small corporate office adds strength and value ▶ competitive edge maintained by providing the best place for our employees to work and achieve their full potential, to establish goals, to measure progress, to reward results and to ensure share ownership.

Exploration & Production

KEY ASSETS

- *3.7 trillion cubic feet proven and probable gas reserves, 17-year reserve life index*
- *118 million barrels of proven and probable Canadian conventional oil and natural gas liquids reserves, 11-year reserve life index*
- *728 million barrels of proven and probable light oil reserves at Syncrude, proven-only reserve life index of 37 years*
- *6.1 million net acres of exploration land in western Canada*
- *more than 2.9 million net acres of exploration land in Argentina and Thailand*
- *huge heavy oil growth potential in Primrose holdings*

AEC's exploration and production operations are organized into four business units each applying the operating and exploration expertise required in their respective geographic region: AEC East, AEC West, AEC Syncrude and AEC International.

Each business unit is responsible for achieving its own objectives and growth targets within the AEC corporate strategy.

THE PAST YEAR WAS SUCCESSFUL FOR AEC

AEC East/AEC West

~ added conventional reserves of 1.2 trillion cubic feet equivalent proven and probable, 28 percent of our previous conventional reserves

~ replaced 1997 conventional production by 362 percent

~ increased AEC's net landholdings by 1.9 million net acres in western Canada

~ achieved finding and development costs of $5.81 per barrel of oil equivalent on a proven and probable basis

~ conducted a $670 million exploration and development program, the largest ever for the Company

~ acquired and interpreted 9,054 miles of 2-D seismic and 157 square miles of 3-D seismic

~ drilled 477 wells, including 145 exploration wells and 332 development wells for an overall success rate of 89 percent

~ increased natural gas sales by 12 percent to 575 million cubic feet per day

~ received an average gas price of $2.04 per thousand cubic feet

~ increased total liquids sales by 18 percent to 28,810 barrels per day

~ liquids prices of $19.99 per barrel for conventional oil; $23.97 per barrel for natural gas liquids

~ reduced conventional G&A costs by 33 percent to $0.55 per barrel of oil equivalent

AEC Syncrude

~ AEC's share of Syncrude's proven light oil reserve additions was 122 million barrels

~ sold 28,447 barrels per day at an average price of $27.80 per barrel for Syncrude

~ obtained regulatory approval to proceed with plans to double production by 2007

AEC International

~ increased exploration acreage in Argentina to 750,000 net acres

Alberta Energy Company *AEC's strategy is to be one of the most dominant companies in our operating areas. Our asset base is characterized by large, concentrated landholdings, high ownership interests and control of producing facilities.*

FINDING & DEVELOPMENT COSTS

WESTERN CANADA *($ per barrel of oil equivalent)* PROVEN PLUS PROBABLE	97	96	95	95–97
ongoing exploration and development	2.53	3.33	4.09	3.00
facilities expansion	1.67	1.79	1.08	1.63
minor acquisitions	0.07	0.29	0.32	0.17
subtotal before land growth	4.27	5.41	5.49	4.80
exploration land growth	1.54	1.10	1.15	1.35
TOTAL ($ per BOE, 10:1)	5.81	6.51	6.64	6.15

FINDING & DEVELOPMENT COSTS
PROVEN & PROBABLE
($ PER BARREL OF
OIL EQUIVALENT, 10:1)

The year 1997 was outstanding for AEC's exploration program which achieved record reserve additions.

~ AEC's conventional reserve additions of 1.2 trillion cubic feet equivalent are comparable in size to the entire reserve base of several intermediate sized companies in the Canadian oil and gas sector. This was accomplished entirely through the drill bit.

~ AEC replaced conventional production by 362 percent.

~ AEC's finding and development costs decreased despite industry-wide increases in input costs.

~ finding and development costs were reduced, on a proven and probable basis, to $5.81 per barrel of oil equivalent, which included $1.54 per barrel of oil equivalent of land costs. On an established (proven plus half-probable) basis, the comparable costs were $6.59, and proven only was $7.60.

~ natural gas constituted 77 percent of AEC's reserve additions. This increases AEC's gas reserve life index to 17 years, one of the longest in the industry.

~ of the total reserve additions of 1.2 trillion cubic feet equivalent, the Company recorded more than 880 billion cubic feet equivalent on a proven-only basis. Two independent consultants, Gilbert Laustsen Jung Associates Ltd. and McDaniel and Associates Consultants Ltd. evaluated the reserves.


70%
Production

AEC East

AEC East, through people like Rob Tetrault, left, and Pat Galipeau, right, successfully grew its reserves and production base through implementation of its ongoing business strategy.

A 70 percent increase in oil production at Suffield led the business unit's key performance indicators. AEC East increased overall production by 24 percent; added gas production of 49 million cubic feet per day; added oil production of 4,647 barrels per day; increased reserves by 12 percent; added 451 billion cubic feet equivalent of proven and probable reserves; replaced 1997 production by 2.5 times; added highly prospective exploration land at Pelican Lake, Cypress Hills and North Dakota and successfully implemented the Foster Creek SAGD pilot project at Primrose.

growth, value, performance

OPERATIONS SUMMARY

	98 forecast	97	96	95
CAPITAL EXPENDITURES ($ millions)	230	238	185	125
PRODUCTION				
natural gas (million cubic feet per day)	389	325	276	276
conventional oil (barrels per day)	18,000	17,389	12,742	10,751
NET WELLS				
exploration	40	53	77	23
development	260	183	205	183
PROVEN AND PROBABLE RESERVES				
natural gas (billion cubic feet)	N/A	1,543	1,457	1,439
conventional oil (million barrels)	N/A	65.8	50.4	43.3
UNDEVELOPED LANDS (thousands of net acres)	N/A	2,562	2,245	2,016

AEC EAST is focused on oil and gas exploration and development in the Plains areas of th
land positions is reflected by AEC East's key areas of operation at Suffield, Primrose, and Boyer, and by ou

STRATEGY

~ pursue production and reserves growth targets through low-risk exploration and development of sweet, dry shallow gas, light and heavy oil

~ provide exposure to medium risk exploration to provide a broadened base for continued growth

~ maintain advantages of high working interests, low operating costs, low royalties and well-developed infrastructures

~ exploit oil and gas potential using innovative low cost recovery technologies

~ fully evaluate Steam Assisted Gravity Drainage (SAGD) at Foster Creek

UPSIDE POTENTIAL

~ significant additional exploitation potential on existing land base – AEC East owns 94 percent of petroleum and natural gas rights on the 1,000-square mile Suffield Range, and 97 percent on the 2,000-square mile Primrose Range

~ exploration potential on acquired land in the Pelican Lake area, at Cypress Hills, and in North Dakota

~ potential for commercial application of SAGD technology leading to the development of up to 100,000 barrels of oil per day, with initial production in the year 2000

GOALS WE SET FOR 97

~ grow oil production through an aggressive drilling program and completion of processing facilities

~ grow gas production through new plant developments and optimization work within existing fields

~ expand oil reserve base through exploration in new areas and exploitation activities within known geological trends

~ expand natural gas reserve base through exploration and exploitation of shallow gas bypassed in previous drilling

~ commence exploration of Williston Basin targets in Saskatchewan and North Dakota

~ advance Primrose SAGD pilot project leading to a decision in 1998 as to size and timing of a commercial development

KEY ASSETS

- *1.5 trillion cubic feet of proven and probable shallow gas reserves*
- *66 million barrels of proven and probable conventional oil reserves*
- *6,500 square mile land position*
- *over 3,900 producing wells*
- *over 90 percent average working interest*
- *$4.55 per barrel conventional oil operating costs*
- *$0.33 per thousand cubic feet gas operating costs*
- *14 percent average royalty*

Vestern Canadian and Williston Basins. The Company's strategy of regional domination through consolidated exploration focus at Pelican Lake, Cypress Hills, and North Dakota.

HOW WE PERFORMED IN 97

~ increased oil production by 37 percent; exited the year at 20,500 barrels per day

~ increased gas production by 18 percent; exited the year at 349 million cubic feet per day

~ added proven and probable oil reserves of 21.8 million barrels

~ added proven and probable gas reserves of 233 billion cubic feet

~ acquired 23 square miles in the Pelican Lake oil play

~ acquired 68,000 net acres in the Williston Basin and drilled AEC's first productive well in that area

~ achieved daily rates up to 1,000 barrels per day on the Company's first SAGD well pair

GOALS WE'VE SET FOR 98

~ increase natural gas production by a target of 20 percent to 389 million cubic feet per day

~ maintain heavy oil production at 1997 levels and defer increases until prices improve

~ develop a 25 billion cubic feet proprietary gas storage project at Primrose for storage of AEC gas

~ complete construction of Suffield Gas Pipeline Project to reduce transportation costs

~ initiate plans for a potential 500 well recompletion program in 1999 and a 500 well drilling program for Suffield shallow gas

~ initiate enhanced oil recovery techniques to realize full potential of Suffield heavy oil pools

~ drill initial horizontal wells and install production facilities for initial production at Pelican Lake

~ complete all business transactions to facilitate exploration on lands in the Williston Basin at Fort Berthold, North Dakota

~ complete the SAGD commercial evaluation and determine heavy oil marketing strategy


HYTHE
EXPANSION

AEC West

AEC West's successful year was due to teams of employees including, from left to right, Brian Antonio, Marv Drewlo and Troy Schweitzer.

The 60 million cubic feet per day liquids-rich sour gas expansion at the Hythe plant raises total processing capacity to 180 million cubic feet per day which, combined with AEC's 170 million cubic feet per day capacity in the Sexsmith plants, positions AEC West as the major gas processor in the West Peace River Arch. Other AEC West operating highlights include a nine percent increase in production; 21 percent increase in proven and probable reserves; 155 net wells drilled, with a 90 percent success rate; 69 percent increase in land base to 4.1 million net acres; the 95 percent owned Maxhamish gas discovery in northeast British Columbia; sale of 7.4 million barrels of oil equivalent, proven, of non-core assets for $73.3 million at $9.91 per barrel of oil equivalent and development of eight new high potential exploration prospects.

growth, value, performance

OPERATIONS SUMMARY

	98	97	96	95
CAPITAL EXPENDITURES ($ millions)	310	441	263	68
PRODUCTION				
natural gas (million cubic feet per day)	330	263	229	80
liquids (barrels per day)	13,000	11,421	11,576	2,489
NET WELLS				
exploration	120	80	58	21
development	85	75	53	8
PROVEN AND PROBABLE RESERVES				
natural gas (billion cubic feet)	N/A	2,142	1,603	451
oil and natural gas liquids (million barrels)	N/A	51.7	59.4	8.3
UNDEVELOPED LANDS (thousands of net acres)	N/A	4,072	2,412	651

AEC WEST occupies a dominant position in the West Peace River Arch. Other AEC West lands stretch cant reserves, natural gas gathering and processing facilities and controls 80 percent of the land in the areas hold significant multi-zone, liquids-rich potential.

STRATEGY

~ continue exploration and development of properties in the West Peace River Arch area, Edson region and northeast British Columbia

~ target multi-zone gas prospects along the Rocky Mountain foothills

~ New Ventures mandate to develop portfolio of high-potential exploration prospects

UPSIDE POTENTIAL

~ dominant position in West Peace River Arch; largest landholder controlling 80 percent of acreage in AEC West operating areas

~ solid land base to continue exploration concepts into British Columbia

~ deep basin, high-risk, high-potential exploration at Edson

~ New Ventures group developing prospects outside current core focus areas

~ substantial land acquisition of 1997 to be drilled in 1998/1999

GOALS WE SET FOR 97

~ maintain dominance of West Peace River Arch area through land purchases and drilling program

~ targeted increase in natural gas production to 318 million cubic feet per day and liquids production to 14,240 barrels per day

~ expand processing capacity at Sexsmith and Hythe

~ develop strategic lands and prospect inventory in Kakwa-Karr area

~ continue to acquire strategic land and develop Tommy Lakes and Tupper

~ sell or swap non-core assets for new core area development in the Western Canadian Foothills

HOW WE PERFORMED IN 97

~ acquired 316,500 acres of land in the West Peace River Arch area through purchases and added 360 billion cubic feet equivalent proven plus probable reserves through drilling

~ achieved natural gas production of 263 million cubic feet per day and liquids production of 11,421 barrels per day

KEY ASSETS

- *reserves of 266 million barrels of oil equivalent, proven and probable*
- *unexplored land totalling 4.1 million acres*
- *multi-zone rights on large, contiguous plays*
- *control of the two largest sour gas processing plants in WPRA*
- *100 percent control of 180 million cubic feet per day production capacity at Hythe*
- *62 percent of 210 million cubic feet per day production capacity at Sexsmith sour plant*
- *80 percent of 50 million cubic feet per day production capacity at Sexsmith sweet plant*
- *100 percent of 17-mile gas gathering system and 10 billion cubic feet storage reservoir*

along the foothills from northeast British Columbia southeast to northern Montana. The Company has signi
where it operates. AEC's natural gas focus in this area is directed particularly at the deeper formations whi

~ did not meet production targets due to rig availability, poor weather, delayed equipment deliveries and outages at the new Sexsmith plant

~ completed Hythe 60 million cubic feet per day sour liquids expansion on time and budget and now control 100 percent working interest of the Hythe plant and gathering systems

~ acquired 251,200 acres of land in the Edson area and developed 38 billion cubic feet equivalent proven plus probable reserves through drilling; several high potential prospects ready to drill in 1998

~ acquired 485,000 acres of land in strategic British Columbia areas and developed 290 billion cubic feet equivalent proven plus probable reserves through exploratory drilling

~ Tommy Lakes project on stream but restricted production due to partner-operated facilities problems

~ sold $73.3 million of non-core assets to royalty trusts

GOALS WE'VE SET FOR 98

~ increase natural gas production to a target of 330 million cubic feet per day

~ continue to acquire and develop strategic British Columbia lands and reserves and add new production to the Hythe gas plant

~ continue aggressive land acquisition/development program in the West Peace River Arch area and fill unused plant capacity

~ test key high potential prospects in the Edson/ANG Pipeline corridor area

~ develop high potential prospects in New Ventures and test a minimum of four new concepts in Wyoming, Alberta and northeast British Columbia

~ complete North West Shallow Gas expansion to 25 million cubic feet per day and continue regional prospect development

~ develop Maxhamish project in 1998 to commence commercial production in the second quarter of 1999

Haulpak
930E
KOMATSU
PRODUCTION
DOUBLES

AEC Syncrude

Syncrude President and CEO Eric Newell, left, and AEC Vice-President Roger Dunn, Chairman of the Syncrude Management Committee, announced plans to double Syncrude's production by the year 2007.

By the year 2001, AEC's share of production is expected to increase by 17 percent to 33,270 barrels of oil per day. During 1997, Syncrude increased proven reserves by 42 percent, and increased production by three percent. AEC is the second largest owner of Syncrude, with a 13.75 percent interest and a gross overriding royalty on additional production. The implied market value of AEC's Syncrude interest is approximately $900 million, based on publicly-traded working interests.

growth, value, performance

OPERATIONS SUMMARY

	98 *forecast*	97	96	95
CAPITAL EXPENDITURES ($ millions)	90	49	29	28
sales (barrels per day)	30,000	28,447	27,596	27,823
proven reserves (million barrels)	N/A	381	269	280
probable reserves (million barrels)	N/A	347	490	–
proven life index (years)	N/A	37	27	28

AEC SYNCRUDE is the second largest owner of the world's largest producer of bitumen-providing approximately 11 percent of Canada's production. The oil sand is surface mined. the bitumen is

$0.80 per barrel premium to 40° API crude oil at Edmonton.

STRATEGY

~ accelerate plant expansion and open new mines

~ double production by the year 2007

~ reduce operating cost from $13.78 per barrel of oil produced to a target of $12.00 per barrel by the year 2000

~ develop and employ new technology to reduce costs

~ improve environmental performance

UPSIDE POTENTIAL

~ production is targeted to increase by 17 percent to 33,270 barrels per day by the year 2001

~ production is expected to continue to increase at substantially higher rates thereafter, doubling current rates by 2007

~ no exploration risk because proven and probable reserves on existing leases will sustain production at the expanded rate for 37 years

~ significantly reduced Crown royalty payable

~ further operating cost reductions to $10.00 per barrel

KEY ASSETS

- *381 million barrels proven reserves net to AEC*
- *347 million barrels probable reserves net to AEC*
- *28,447 barrels per day sales net to AEC*
- *13.75 percent ownership*
- *6.0 percent overriding royalty on an additional 6.25 percent*
- *highly motivated and experienced work force and management team*
- *large infrastructure including upgraders and extraction equipment*
- *commitment to developing new technology*

based, light, sweet crude. The Syncrude operation is the single largest source of oil production in Canada
extracted and, through a refining process, is upgraded to a light (32° API), sweet crude which sells at an

GOALS WE SET FOR 97

~ produce 28,500 barrels per day

~ add 70 million barrels of proven oil reserves

~ sign Crown royalty agreement

~ obtain Alberta Energy and Utilities Board "AEUB" Aurora Mine approval

~ reduce operating costs to $13.20 per barrel

HOW WE PERFORMED IN 97

~ sales of 28,447 barrels per day

~ added 122 million barrels of light proven reserves

~ signed Crown royalty agreement, significantly reducing royalties

~ obtained Aurora Mine approval

~ achieved operating costs of $13.78 per barrel, on a production basis, higher than target due to increased natural gas and maintenance costs

GOALS WE'VE SET FOR 98

~ produce 30,000 barrels per day

~ reduce operating costs to $13.60 per barrel

~ file upgrading expansion application with AEUB

~ acquire additional oil sands leases


FUTURE GROWTH

AEC International

The growing AEC International team includes, from left to right, Heiner Klein, Yvonne Lee, and Stan Swerhun.

The International team being assembled by AEC is focusing on building a substantial reserve base outside North America and has acquired more than 2.9 million net acres in Argentina and Thailand. AEC International is also examining opportunities in Australia and North Africa. Exploration land in Argentina increased 66 percent, and 10 net wells were drilled. Reserves were increased by 27 percent while production increased 36 percent.

growth, value, performance

OPERATIONS SUMMARY

	98 forecast	97	96	95
CAPITAL EXPENDITURES ($ millions)	80	48	25	16
PRODUCTION				
conventional oil (barrels per day)	2,000	1,683	1,241	1,090
NET WELLS				
exploration	7.5	3.4	1	–
development	6.0	7.0	5	2
PROVEN AND PROBABLE RESERVES				
(million barrels of oil equivalent)	N/A	4.2	3.3	4.2
UNDEVELOPED LANDS (thousands of net acres)	N/A	2,945	2,711	452

AEC INTERNATIONAL is building for future growth by establishing large, relativel
and attractive royalty and tax regimes. This international expansion will provide the Company with a reserve bas

most of which is still in the formative stages of exploration. AEC International is also examining opportunities in Australia and North Africa.

STRATEGY

~ invest approximately 10 percent of the Company's annual capital budget

~ build a substantial, profitable reserve and production base within five years; target of 20,000 barrels of oil equivalent production per day through exploration in three regions by the year 2002

~ acquire working interests balanced with risk profiles: high working interests in low-to-moderate risk plays, and shared working interests in higher risk plays

~ focus resources on carefully screened and highly prospective basins and plays in a relatively small number of countries

~ make strategic acquisitions in focus areas

UPSIDE POTENTIAL

~ large prospective land position in the Neuquen Basin and a new play in the Acambuco region of northwest Argentina

~ in early 1998, acquired land position in two basins on the Northwest Shelf of Australia

~ wildcat potential onshore Thailand

~ active New Ventures team seeking high quality exploration opportunities in a few other high prospective basins

GOALS WE SET FOR 97

~ achieve production of 2,300 barrels of oil equivalent per day

~ add 150,000 acres of exploration land in Argentina

~ complete acquisition and interpretation of 180 miles of seismic data

~ complete basin analysis study in Thailand

~ complete evaluation of Trinidad

HOW WE PERFORMED IN 97

~ re-organized to create an efficient, effective and experienced international E&P organization for successful growth

~ re-directed our efforts away from a waterflood project in Argentina; therefore, had production of 1,800 barrels of oil equivalent per day

KEY ASSETS

- *large, contiguous land blocks totalling 2.9 million net acres*
- *new and emerging exploration plays on existing lands*
- *staff core competency of proven leadership in international exploration*

nexplored land blocks in countries with substantial geologic potential, suitable business climates, long land tenure. utside of Canada. To this end, it has acquired in excess of 2.9 million net acres in Argentina, and Thailand.

average in 1997 rather than the goal of 2,300 barrels of oil equivalent per day

~ identified new play type on existing lands in Argentina

~ added substantially to oil prospect inventory in Neuquen Basin, Argentina by successfully bidding and winning 300,000 acres adjacent to our producing facilities

~ appraised and commenced development of the Puesto Prado Oil Field in Neuquen Basin

~ bid round success in Acambuco region of Northwest Basin, Argentina for large gas potential adding 130,000 acres of land

~ completed Thailand basin analysis in preparation for 1998 well decision

~ withdrew from Peru and Trinidad lands after careful technical and economic assessment of exploration results

GOALS WE'VE SET FOR 98

Argentina

~ evaluate and capture potential exploration upside by drilling exploration wells on existing and newly acquired lands in the Neuquen Basin

~ shoot 500 square kilometres of 3-D seismic in Rio Negro area on existing and newly acquired lands, building our exploration drilling inventory for future growth

~ test new play type in the Estancia Vieja area

~ drill six development wells, complete surface facilities and implement a waterflood program in the Puesto Prado pool

~ shoot seismic and prepare a drilling location at Acambuco

Thailand

~ complete seismic program and interpretation

~ farm out a 50 percent working interest in lands in the northern basin area and spud a test well if required

Australia

~ build expertise and prospect inventory

~ pursue plays in the Canarvon, Canning and Bonaparte Basins on the Northwest shelf

~ accelerate opportunity through appropriate farm-ins, bid round participation and acquisitions

North Africa

~ evaluate and capture appropriate opportunities in North Africa and organize a New Ventures team to expand into the region by the third quarter of 1998


INVESTMENT
DOUBLES

Transportation, Storage & Processing *AEC's midstream assets comprise pipelines, natural gas storage and gas processing facilities. They represent 21 percent of the Company's asset base and provide a solid, growing source of cash which adds to AEC's financial strength.*

AEC Pipelines & Gas Processing

Representing the Pipelines team are back row, left to right, Joanne Pasini, John Starratt, Tim Zyboya; and front, David Wright and Matt Cassels.

A major milestone for AEC was the investment in the Express Pipeline System, which doubled the Company's investment in pipelines. The oil hub at Hardisty, Alberta is the shipping point for oil on the Express Pipeline commissioned in February, with first oil delivered in April to major new U.S. markets for Canadian producers. The Company subsequently formed a limited partnership and the market established a value of $1.2 billion for AEC's crude oil pipeline assets. The partnership units began trading April 9, 1997 on the Toronto and Alberta Stock Exchanges under the symbol ALB.IR.

growth, value, performance

KEY ASSETS

- *70 percent ownership in AEC Pipelines, L.P. which in turn owns:*

  ~ 100 percent interest in the 150-mile Cold Lake Pipeline which has 258,000 barrels per day throughput capacity

AEC PIPELINES & GAS PROCESSING are midstream assets that provid the largest transporter of oil within Alberta, and, as such, holds significant interests in major pipelines throug

pipelines and in natural gas processing facilities. The Business Unit is well positioned to benefit from the planned future expansion of oil sands and heavy oil operations in Alberta.

STRATEGY

~ build on entrepreneurial, non-regulated, non-utility investments in the midstream sector of the oil and gas industry

~ anticipate and capture emerging market opportunities through creative entrepreneurial business arrangements

~ apply latest appropriate technology

UPSIDE POTENTIAL

~ Alberta Oil Sands Pipeline expansion to serve Syncrude and provide additional capacity for third party shippers

~ Alberta Oil Sands Pipeline and Cold Lake Pipeline are strategically positioned to transport increasing heavy oil production in northern Alberta

~ Express Pipeline has capability to expand from its design capacity of 172,000 barrels per day to 280,000 barrels per day, at very low capital cost

~ 100 percent interest in the 270-mile Alberta Oil Sands Pipeline which has 238,000 barrels per day throughput capacity

~ an indirect, 50 percent ownership in the 1,725-mile Express Pipeline System

~ 19 percent interest in the 113-mile Wabasca Oil Pipeline which has 20,000 barrels per day throughput capacity

~ long-term shipper contracts

- *joint venture interests in two natural gas liquids extraction facilities*
- *33 percent interest in Alberta Ethane Gathering System*
- *6 percent interest in Iroquois Gas Transmission System*

EC with a source of cash flow and earnings that is largely independent of commodity prices. AEC Pipelines is s 70 percent ownership of AEC Pipelines, L.P. As well, the business unit itself has minor interests in other

GOALS WE SET FOR 97

~ obtain public ownership participation and independent market valuation for AEC's pipelines assets
~ commission Express Pipeline
~ complete refurbishment of Platte Pipeline
~ implement a business strategy for oil pipeline expansion in the northeast quadrant of Alberta

HOW WE PERFORMED IN 97

~ initial public offering of AEC Pipelines, L.P. completed, raising $300 million
~ Express Pipeline commissioned and the Express Pipeline System in service
~ Platte Pipeline refurbishment well advanced and will be complete early in 1998
~ financial results were less than forecast due to business development charges plus reduced revenues and higher operating costs associated with a minor line break on Platte in July

GOALS WE'VE SET FOR 98

~ implement market-based strategies to increase throughput on the Express Pipeline by up to 15,000 barrels per day
~ commence expansion of Alberta Oil Sands Pipeline to handle Syncrude production growth and third party volumes
~ obtain regulatory approval for expansion of Alberta Ethane Gathering System
~ continue development of the northeast Alberta synthetic and heavy oil strategy and pursue pipeline business opportunities in South America
~ add ethane extraction capability at joint venture Empress Straddle Plant by year-end


RECORD
THROUGHPUT

AEC Storage & Hub Services

Celebrating the record throughput at AECO are left to right, Chris Sas, Randy Bressler and Barry Schrader.

Canada's largest independent natural gas storage hub and trading centre, the AECO C HUB is Canada's reference point for pricing spot gas. The reservoir achieved record throughput of 136 billion cubic feet in 1997, helping AEC and other Hub customers better manage their natural gas marketing through a variety of Hub services. Other Business Unit highlights in 1997 include enhanced contractual arrangements for AECO, and U.S. regulatory approval and construction start of the Wild Goose Storage facility in California.

growth, value, performance

AEC STORAGE & HUB SERVICES are unique midstream operations

prices. These services add value to AEC and other customers by facilitating buy-low, sell-high gas trading strate-

upstream oil and gas company. AECO is the reference point for pricing of Canadian spot gas. On a cold winter day AECO could provide as much as 15 percent of Alberta's gas supply. Storage and Hub Services is currently constructing California's first non-utility independent gas storage facility, Wild Goose, strategically located at the crossroads for major gas pipelines serving California.

STRATEGY

~ meet customer needs

~ anticipate and capture emerging market opportunities

~ develop creative, entrepreneurial business arrangements

UPSIDE POTENTIAL

~ the Wild Goose facility will add value in the same way AECO C HUB currently adds value

~ subject to market conditions and regulatory approvals, Wild Goose could be expanded significantly from its initial design capacity of 14 billion cubic feet

KEY ASSETS

- *85 billion cubic foot gas storage reservoir at AECO (Alberta)*
- *1.8 billion cubic feet peak daily withdrawal capacity at AECO*
- *Wild Goose Gas Storage (California) facility regulatory approval*
- *natural gas storage contracts*

which contribute significant cash flow through third party storage and related services regardless of commodity
gies. The natural gas storage reservoir at Suffield, the AECO C HUB, is the largest owned by an independent

GOALS WE SET FOR 97

~ increase operating cash flow by 15 percent

~ renew expiring AECO contracts

~ secure regulatory approval for Wild Goose Gas Storage facility in California

HOW WE PERFORMED IN 97

~ operating cash flow declined due to lower revenues and higher than anticipated operating costs

~ AECO fully contracted, including new higher return contracts

~ regulatory approval for Wild Goose Gas Storage facility secured

GOALS WE'VE SET FOR 98

~ increase operating cash flow by 15 percent

~ increase capacity at AECO by three billion cubic feet to service new contracts

~ construction of the Wild Goose facility towards a 1999 start-up

Cash flow per share

Cash flow per share, fully diluted grew 22 percent in 1997 to $4.67. Growth on a 'per-share' basis is a fundamental target and measure of success by investors.

Management's discussion and analysis of financial condition and results of operations is to be read in conjunction with the audited consolidated financial statements. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). A reconciliation to United States GAAP is included in note 15 to the consolidated financial statements.

AEC's results are reported in two segments: Exploration and Production comprises the Company's domestic and international oil and gas exploration, production and marketing operations; Transportation, Storage and Processing includes the pipeline and gas processing operations and natural gas storage and hub services.

During 1997, a new Canadian accounting standard was established for Income Taxes applicable for fiscal years beginning in the year 2000. The Company will adopt this new standard in the applicable fiscal year. The impact of implementing the new Income Tax standard is not expected to be material, similar to the impact of U.S. GAAP FAS 109 as described in Note 15.

Management's Discussion & Analysis of Financial Condition

RESULTS OF OPERATIONS

Exploration and Production

For 1997, revenues, net of royalties, increased 30 percent or $276.0 million, to $1,208.6 million. This compares to an increase in 1996 of 61 percent or $352.5 million, to $932.6 million. Table 1 on page 48 shows the details of these changes by product.

Natural Gas Prices

Natural gas prices averaged $2.04 per thousand cubic feet compared to $1.77 per thousand cubic feet in 1996 and $1.40 per thousand cubic feet in 1995. During early 1997, natural gas prices and production levels were buoyed by cold winter weather across North America creating increased demand. Alberta prices continue to show a wide differential from U.S. prices due to export transportation constraints. See Table 2 on page 48.

Natural Gas Volumes

Production volumes increased from 505 million cubic feet per day in 1996 to 588 million cubic feet per day in 1997. The 1997 amount includes 19 million cubic feet per day of cushion gas from the AECO Storage Facility reservoir. Natural gas sales increased to 575 million cubic feet per day, up 12 percent from the 1996 total of 515 million cubic feet per day (1995 – 320 million cubic feet per day). At year-end 1997, produced gas inventory in storage was 18 billion cubic feet, up from 12 billion cubic feet in 1996 (1995 – 15 billion cubic feet). See Table 3 on page 48.

Purchased Gas sales increased to 569 million cubic feet per day from 532 million cubic feet per day in 1996 (1995 – 308 million cubic feet per day) in order to capture profits from price volatility in the short-term market.

TABLE 1 CHANGES IN OIL AND NATURAL GAS REVENUE ($ millions)	1997 compared to 1996					1996 compared to 1995				
	price	price hedge	volume	royalties & other	total	price	price hedge	volume	royalties & other	total
natural gas and NGLs	56.1	0.4	38.0	(21.2)	73.3	76.8	(5.7)	99.5	7.8	178.4
oil										
conventional	(15.9)	–	35.0	(1.0)	18.1	32.0	(23.2)	60.0	(15.0)	53.8
Syncrude	22.1	–	7.3	28.3	57.7	53.7	(33.0)	(2.0)	(24.5)	(5.8)
international	(0.6)	–	4.3	(0.3)	3.4	2.2	–	1.1	(0.1)	3.2
purchased gas sales	106.5	(0.2)	17.2	–	123.5	36.7	(0.3)	86.5	–	122.9
total	168.2	0.2	101.8	5.8	276.0	201.4	(62.2)	245.1	(31.8)	352.5

TABLE 2 FACTORS AFFECTING THE PRICE OF NATURAL GAS

1997 COMPARED TO 1996	1996 COMPARED TO 1995
~ increased due to summer demand to replace storage levels depleted in the colder than average 1996-1997 winter	~ colder winter temperatures resulted in greater demand and higher natural gas prices ~ arbitration settlements had a positive impact on natural gas prices in 1995

TABLE 3 FACTORS AFFECTING NATURAL GAS SALES AND PRODUCTION VOLUMES

1997 COMPARED TO 1996	1996 COMPARED TO 1995
~ new production was brought on stream at Primrose in the second quarter and Gold Creek in the fourth quarter ~ unscheduled facility maintenance ~ decision to retain gas in storage in expectation of an improvement in prices in the first quarter of 1998	~ addition of Conwest volumes ~ new production brought on stream ~ volumes sold from storage to capture the seasonal price available from peak winter markets

At December 31, 1997, the Company had contracts in place to purchase 92 billion cubic feet of natural gas over a two-year period. Contracts were also in place to deliver 114 billion cubic feet over the same period. The shortfall will be supplied from gas to be acquired or produced gas. At year-end there was no purchased gas inventory compared to 3 billion cubic feet in 1996.

Crude Oil Prices

Prices for Canadian conventional crude oil averaged $19.99 per barrel during 1997, an eight percent decrease from the $21.80 average price received in 1996. Prices for Syncrude Sweet Blend oil averaged $27.80 per barrel compared to $25.68 per barrel in 1996, an eight percent increase. Argentinean oil prices averaged $24.66 per barrel, a decrease of four percent from the 1996 average price of $25.57 per barrel (1995 – $21.11 per barrel). See Table 4 on page 49.

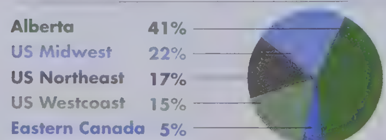
Crude Oil and Natural Gas Liquids Volumes

AEC produced an average of 28,810 barrels of Canadian conventional oil and natural gas liquids per day in 1997 compared to 24,318 barrels per day in 1996, an increase of 18 percent (1995 – 13,240 barrels per day). Syncrude sales averaged 28,447 barrels per day, an increase of three percent over the 27,596 barrels per day produced in 1996 (1995 – 27,823 barrels per day). AEC's International production amounted to 1,683

GAS MARKET SPLIT

AEC is well positioned to benefit from a continental gas market.

98f AEC Gas Sales by Geographic Area



98f AEC Gas Sales by Contract

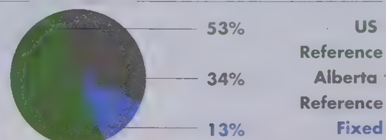


TABLE 4 FACTORS AFFECTING OIL PRICES

1997 COMPARED TO 1996	1996 COMPARED TO 1995
~ West Texas Intermediate prices declined from an average US$22.01 in 1996 to US$20.61 in 1997; this was partially offset by an increase in the US to Canadian foreign exchange rates ~ an increase in the proportion of conventional heavy crude grades sold at lower prices reduced the average price per barrel of Canadian conventional crude oil and was partially offset by the elimination of hedging costs	~ West Texas Intermediate prices increased from an average US$18.40 in 1995 to US$22.01 in 1996; this was partially offset by a decrease in the US to Canadian foreign exchange rates ~ Syncrude Sweet Blend prices increased to $29.08 in 1996 compared to $23.83 in 1995; these prices were reduced by an increase in price hedging costs

TABLE 5 FACTORS AFFECTING OIL PRODUCTION

1997 COMPARED TO 1996	1996 COMPARED TO 1995
~ oil production brought on stream at Suffield, Valhalla and Claremont ~ minor property disposals resulted in a decrease of 1,100 barrels per day	~ addition of Conwest volumes ~ exploration and development activity in the Suffield area

barrels per day in 1997, an increase of 36 percent over the 1,241 barrels per day produced in 1996 (1995 – 1,090 barrels per day). See Table 5 above.

During 1997, AEC began accessing new U.S. markets via the 50 percent AEC-owned Express Pipeline System.

Production Unit Net Backs

Production unit net backs represent the Operating Cash Flow the Company receives, on average, for each unit of product sold. Natural gas net backs increased 17 percent to $1.33 per thousand cubic feet in 1997 compared to $1.14 in 1996. Net backs for conventional oil declined 17 percent to $10.67 per barrel in 1997 compared to $12.83 in 1996, and net backs for Syncrude Sweet Blend averaged $11.97 per barrel in 1997, an increase of 69 percent over the $7.10 received in 1996. At the end of 1996, all AEC's oil price swaps terminated and oil net backs for 1997 reflected market trends. Net backs received by AEC over the past three years and the factors affecting them, are summarized in Tables 6 and 7 on page 50.

Exploration and Development Capital

During 1997, the exploration and production segment invested capital of $776.0 million. Proceeds received on the disposal of non-core properties amounted to $91.4 million. Investment in the Western Canadian Sedimentary Basin amounted to $669.4 million and resulted in the addition of 883 billion cubic feet equivalent of proven reserves, and 272 billion cubic feet equivalent of probable reserves or 1.2 trillion cubic feet equivalent total, a net increase of 1.9 million net acres of exploratory lands, and an increase in the Company's control and operatorship in a major gas processing facility at Hythe, Alberta to 100 percent. Major exploration and development activities undertaken in the West Peace River Arch, at Suffield and Primrose, and in newer plays at Maxhamish and Pelican Lake, contributed to the significant reserve additions of 1997. Investments were also made in the development of a pilot project to successfully confirm the viability of producing heavy crude reserves utilizing Steam Assisted Gravity Drainage (SAGD) technology. In addition, $9.5 million was invested in exploration projects in North Dakota and Montana.

AVERAGE GAS PRICE ($ MCF)

AEC's average gas price increased 15 percent.

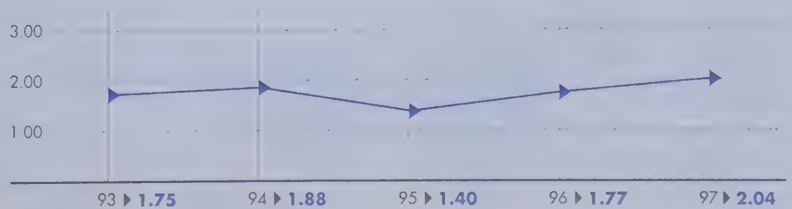


TABLE 6 PRODUCT UNIT NET BACK
($ per unit)

	Natural Gas (thousand cubic feet)			Conventional Oil (barrels)			Syncrude (barrels)		
	1997	1996	1995	1997	1966	1995	1997	1996	1995
Revenue	2.04	1.80	1.40	19.99	25.14	20.68	27.80	29.08	23.83
Hedge	–	(0.03)	–	–	(3.34)	(0.14)	–	(3.40)	(0.14)
Revenue, net of hedge	2.04	1.77	1.40	19.99	21.80	20.54	27.80	25.68	23.69
GORR*	–	–	–	–	–	–	0.69	0.71	0.60
Royalties	0.31	0.20	0.13	3.58	4.28	3.48	2.70	5.58	3.02
Operating costs	0.40	0.43	0.34	5.74	4.69	4.15	13.82	13.71	13.70
Net back	1.33	1.14	0.93	10.67	12.83	12.91	11.97	7.10	7.57

** Gross Overriding Royalty Received*

TABLE 7 FACTORS AFFECTING NET BACKS

	1997 COMPARED TO 1996	1996 COMPARED TO 1995
Natural Gas	~ increase in prices and lower per unit operating costs more than offset an increase in royalties per unit	~ increased prices were partially offset by higher per-unit operating costs and royalties on the acquired Conwest properties
Conventional Oil	~ a decrease in average price and increased costs of production were only partially offset by the elimination of the oil price hedging losses and a decrease in royalties paid ~ delayed tie-ins increased oil hauling costs	~ increased prices were offset by price hedging losses, higher royalties and higher operating costs
Syncrude Sweet Blend Oil	~ Crown royalties decreased as a result of new fiscal terms established by the Government of Alberta ~ the oil price decline was more than offset by the elimination of the hedge costs incurred in 1996	~ increased prices were offset by price hedging losses and higher royalties

Investments in Syncrude totalled $48.8 million primarily directed to commencing development on four new leases and removing current production constraints.

RESULTS OF OPERATIONS

Transportation, Storage and Processing

For 1997, Transportation, Storage and Processing revenues increased 168 percent to $508.3 million from $189.5 million in 1996 (1995 – $152.9 million). The factors contributing to this increase are detailed in Table 8 in page 51.

During 1997, the Company restructured its crude oil pipeline operations with the formation of AEC Pipelines, L.P., as more fully described in Note 2 in the Notes to the Consolidated Financial Statements. This transaction has enabled a market valuation to be placed on the Company's crude oil pipeline assets and provided additional capital to fund expanded operations, most notably the completion of the development of Express Pipeline System.

Construction on the Express Pipeline was completed by investing an additional $120.5 million in 1997 and oil deliveries commenced April 5, 1997.

AVERAGE OIL PRICE ($ BARREL)

▶ *Syncrude*

▶ *Conventional Oil*

Over 75 percent of AEC's liquids production is light oil and natural gas liquids.

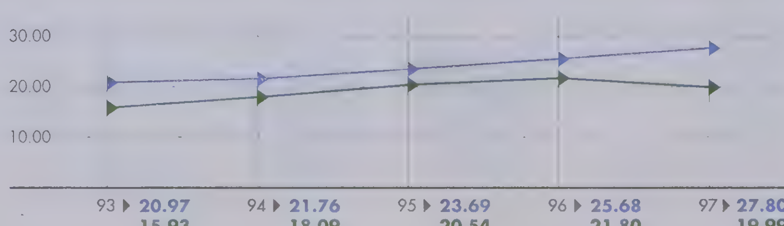


TABLE 8 TRANSPORTATION, STORAGE AND PIPELINE REVENUE

	1997 COMPARED TO 1996	1996 COMPARED TO 1995
Pipelines	~ increased due to the sale of oil acquired by a 50 percent-owned affiliate to fulfill volume obligations on the Express Pipeline System ~ increased due to the commissioning of the Express Pipeline System	~ increased as operating costs, primarily associated with safety and preventative maintenance, were recovered through tariff revenues
Natural Gas Storage	~ net revenues are comparable year over year	~ increased as a result of higher facility utilization
Natural Gas Processing	~ increased primarily due to the full year impact of the Empress Straddle Plant operations	~ increased because of higher liquids prices and the commissioning of the new Empress Straddle Plant

Throughput capacity on the system has been constrained as a consequence of line pressure restrictions imposed on the Platte Pipeline segment of the system following a pipeline leak July 2, 1997. The environmental remediation program, the cost of which is immaterial, has been finalized and discussions with the regulatory authorities are ongoing to finalize the work required to restore pressure on the restricted sections of the Platte line.

The Company holds a 50 percent ownership in an affiliate that is a shipper on the Express Pipeline System. The revenue from oil sold and the cost of oil purchased and shipped on the Express System is reflected in revenue and cost of product purchased, respectively.

The Company invested $40.2 million relating to its gas storage operations, primarily to acquire natural gas volumes to be used in the maintenance of facility deliverability pressures. The Company also received regulatory approval in 1997 to proceed with a 14 billion cubic foot gas storage project in northern California. The facility, known as Wild Goose Gas Storage, is planned to commence commercial operations in mid-1999.

In November 1997, AEC sold its eight percent equity interest in the Alliance Pipeline project.

CONSOLIDATED SUMMARY

Consolidated net earnings for 1997 amounted to $199.7 million, compared to $68.0 million in 1996. Excluding the dilution gain and the additional depletion and amortization non-recurring items, net earnings in 1997 were $95.8 million or 81 percent higher than the comparable amount of $53.0 million in 1996. Consolidated cash flow from operations increased 32 percent to $544.7 million in 1997 from $411.9 million in 1996 (1995 – $246.2 million). Consolidated net revenues for 1997 totalled $1,716.9 million, compared to $1,122.1 million in 1996, a 53 percent increase (1995 – $733.0 million). Factors affecting these results are outlined in Table 9 and Table 10 on pages 52 and 53, respectively.

Liquidity and Capital Resources

On a consolidated basis, the Company invested $984.4 million in 1997, $780.4 million or 79 percent in the Exploration and Production segment, and $204.0 million in the Transportation, Storage and Processing segment. This compares to $2,028.9 million in 1996 which included $1,120.9 million as a result of the Conwest acquisition. Factors affecting capital are detailed on page 54.

The Company funded its investment program primarily through a

TSP OPERATING CASH FLOW (%)

TSP cash flow is largely independent of commodity prices.

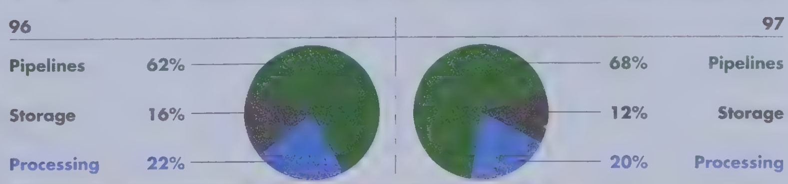


TABLE 9 FACTORS AFFECTING CONSOLIDATED RESULTS

	1997 COMPARED TO 1996	1996 COMPARED TO 1995
Net Earnings	$199.7 million, up $131.7 million ~ $178.0 million dilution gain representing the increase in the Company's share of the accounting value of AEC Pipelines, L.P. partnership equity resulting from the sale of a 30 percent minority interest ~ additional depletion related to International operations ~ increase in Syncrude net backs ~ minority interest in AEC Pipelines, L.P. ~ increase in natural gas prices ~ decrease in net interest expense ~ decrease in general and administrative expense	$68.0 million, down $42.2 million ~ amortization of the difference between the fair value and accounting book value of the Conwest acquisition ~ increase in deferred income taxes ~ increase in Syncrude royalties ~ increase in interest expense ~ increase in natural gas prices ~ increase in natural gas volumes ~ increase in oil volumes ~ increase in Syncrude prices
Cash Flow from Operations	$544.7 million, up $132.8 million ~ increased natural gas prices and volumes ~ increased Syncrude prices and volumes ~ newly commissioned Express Pipeline System ~ full year impact of Empress Straddle Plant ~ decreased purchased gas operating margins and increased pipeline transportation costs	$411.9 million, up $141.2 million ~ increase in natural gas and oil volumes ~ increase in natural gas and oil prices ~ sale of Forest Products in 1995
Net Revenues	$1,716.9 million, up $594.8 million ~ marketing of purchased oil volumes ~ increased purchased gas prices and volumes ~ increased produced gas prices and volumes ~ increased Syncrude prices and volumes ~ full year impact of Empress Straddle Plant	$1,122.1 million, up $389.1 million ~ increased natural gas volumes and prices ~ increased purchased gas volumes and prices ~ increased conventional oil volumes and prices ~ decreases in Syncrude net revenues

combination of cash flow from operations of $544.7 million, net proceeds received on the sale of 30 percent of the Company's interest in the AEC Pipelines, L.P. of $295.4 million, net proceeds received on the sale of oil and gas and storage equipment of $102.8 million, proceeds on the disposal of non-core and other assets of $92.2 million and long-term debt.

To conserve their capital many E&P companies contract out to third party processors for major facilities. AEC has developed an alternative strategy of leasing rather than owning equipment. This preserves capital for other strategic initiatives while maintaining operating control. In 1997, AEC entered into a long-term operating lease for certain oil and gas and storage equipment. Payments under this agreement will approximate $9.6 million in 1998 which will be offset by lower interest costs.

Long-term debt was $1,017.1 million at December 31, 1997, up $48.8 million, or five percent, from the 1996 amount of $968.3 million. The Company has nine revolving credit facilities available to a maximum of $1,046 million for terms ranging from 6.5 to 8 years. At December 31, 1997, $533.9 million or 51 percent was utilized. In addition, the Company has the capability to issue up to $250 million of unsecured debentures by way of a medium-term note shelf prospectus, until August 1998. The Company expects to renew its prospectus in due course.

The Company, through an affiliate, concluded a project financing arrangement for the Express Pipeline System on February 6, 1998. AEC's 50 percent share amounted to $264 million, after expenses, and was used to reduce bank debt.

TABLE 10 FACTORS AFFECTING EXPENSES

	1997 COMPARED TO 1996	1996 COMPARED TO 1995
Operating Expenses	$450.5 million, up $78.4 million ~ commissioning and operating the Express Pipeline System ~ full year impact of Empress Straddle Plant ~ new oil and natural gas production brought on stream	$372.1 million, up $92.8 million ~ higher natural gas and conventional oil operating costs resulted from the addition of the Conwest properties
Cost of Product Purchased	$631.0 million, up $384.6 million ~ increase due to the purchase of oil acquired by a 50 percent owned affiliate to fulfill volume obligations on the Express Pipeline System ~ increase due to higher volumes of purchased gas trading activity and higher unit costs	$246.4 million, up $119.5 million ~ increased due to higher volumes of purchased gas trading activity and higher unit costs
General and Administrative Expenses	$28.1 million, down $4.3 million ~ lower information technology expenses, consulting and transportation costs	$32.4 million, down $2.8 million ~ decreased due to one-time costs related to streamlining the Company's operations incurred in 1995
Net Interest Expense	$48.9 million, down $4.5 million ~ higher monthly average debt levels offset by lower cost of borrowing	$53.4 million, up $23.6 million ~ increase due to higher average debt and interest allocated to Forest Products in 1995
Depreciation, Depletion and Amortization	$356.5 million, up $70.7 million ~ higher natural gas and oil volumes sold ~ higher per unit rate of $1.02 compared to $0.96 per million cubic feet equivalent in 1996	$285.8 million, up $130.0 million ~ increased as a result of higher gas and oil sales volumes and an increase in the per unit rate reflecting the amortization of the Conwest fair value to book value difference
Additional Depletion and Amortization	$84.9 million ~ International ceiling tests completed on a country basis – $72.4 million ~ exited Peru and Trinidad ~ Argentina operations continue ~ additional amortization of Transportation, Storage and Processing capital assets	N/A
Income Taxes	$80.5 million, up $1.5 million ~ lower effective tax rate in 1997 as a result of the non-taxable dilution gain partially offset by non-deductible additional depletion and amortization	$79.0 million, up $29.3 million ~ increase due to the non-deductibility of the amortization of the difference between fair value and book value related to the Conwest acquisition
Cash Income Taxes	$13.5 million, up $5.1 million ~ Large Corporation Tax and current taxes ~ higher due to non-recurring recoveries in the prior year	$8.4 million, down $30.8 million ~ declined because of increased deductible exploration and development investments

TABLE 11 ALLOCATION OF CAPITAL INVESTED

	1997	1996
Western Canada Conventional Oil and Gas	$669.4 million ~ securing a large land position in key exploration areas ~ drilling 391 net wells ~ developing required gas and oil processing capability	$444.3 million ~ drilling and completions in Alberta ~ securing a dominant land position in the Company's key exploration areas
Syncrude	$48.8 million ~ commencing new mine and expansion development plan	$29.4 million ~ commencing North mine development and capacity improvements
International	$48.3 million ~ drilling and development in Argentina ~ conducting exploration assessments in two countries	$24.5 million ~ field development and exploration drilling
U.S. Conventional	$9.5 million	$3.1 million
Express Pipeline System	$120.5 million ~ commissioning of pipeline from Hardisty, Alberta to Casper, Wyoming ~ refurbishing the Platte System from Casper to Wood River, Illinois	$348.7 million ~ construction ~ purchasing of 50% interest in Platte Pipeline System ~ refurbishing and expanding Platte Pipeline System
Other Pipelines	$39.1 million ~ investments in Lakeland, Alberta Oil Sands and Cold Lake pipelines	$15.3 million ~ investments in Alberta Oil Sands and Cold Lake pipelines
Gas Storage	$40.2 million ~ acquiring natural gas volumes to be used in the maintenance of facility deliverability pressures ~ commencing construction of the Wild Goose Gas Storage Facility in California	$18.8 million ~ increasing capacity at AECO C by 5 billion cubic feet ~ costs related to Wild Goose Gas Storage facility
Gas Processing	($2.5) million ~ cost recovery equalization on admission of a new joint venture participant	$15.1 million ~ constructing natural gas liquids extraction straddle plant at Empress, Alberta

RISK MANAGEMENT

The Company's results are influenced by factors such as product prices, interest and foreign exchange rates, royalties, taxes and operations. Sensitivities to some of these factors are summarized on page 56.

The Company seeks to manage its risk exposure through a combination of insurance, commodity price swap agreements, internal controls, sound operating practices and currency swaps. Derivatives are used only to reduce specific risk exposures and are not held for trading purposes.

As a part of a non-recourse project financing, the 50 percent owned Express Pipeline System fixed the base interest rate on $300 million of loan proceeds through interest rate swaps. At December 31, 1997, the unrealized settlement liability related to these swaps amounted to US$22.4 million (AEC share US$11.2 million). The affiliate terminated the interest rate swap upon completion of the project financing on February 6, 1998. During 1997 the company utilized commodity price swaps for produced gas and purchased gas, and an affiliate utilized oil price swaps.

In addition to limits established by the Board of Directors on the use of commodity price swap agreements,

a rigorous system of internal control procedures has been established. Credit risks are managed by transacting only with preauthorized counterparties where agreements are in place. Credit limits are established for all parties where a credit risk exposure exists and are closely monitored.

An active program of monitoring and reporting day-to-day operations is designed to provide assurance that environmental and regulatory standards are met. Contingency plans are in place for timely response to an event.

AEC is exposed to risks and uncertainties inherent in foreign operations, including regulatory and legislative changes. Events in these operations are not expected to have a material adverse effect on the Company.

AEC formed a project team to assess the extent of the Year 2000 computer problem and to prepare a plan for ensuring all business critical systems at AEC are Year 2000 compliant, by March 1999. Over the past few years, AEC's strategy has been to implement, wherever possible, mainstream vendor supplied and supported systems. This serves to minimize the cost of rewrites, replacement and testing of non-compliant systems. AEC's Year 2000 project is primarily focused on ensuring systems suppliers are aware of, and are handling the problem in a timely fashion, implementing the supplier's Year 2000 technology as it becomes available, and testing this new technology to ensure Year 2000 compliance.

The project includes in its scope all business, process control and administrative systems.

The inventory and assessment phase for process control systems is currently underway and expected to be complete by June 1998. The inventory of Business and Administrative Systems is complete and remediation plans are in place to deal with critical systems by the end of 1998.

The Company expects the advent of the Year 2000 will not have any significant effect on the information, operating or reporting systems or financial results of the Company.

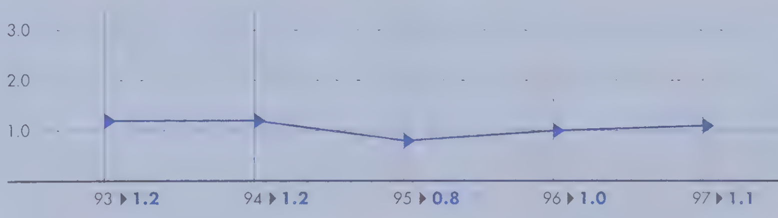
OUTLOOK

Oil and gas sales are targeted to result in increases, while commodity prices are expected to be lower in 1998, the combined outlook may result in cash flow and earnings decreases. Produced gas sales are targeted to grow to 700 million cubic feet per day compared to 575 million cubic feet per day in 1997. The Company believes it has secured adequate gas pipeline transportation to achieve its forecasted direct sales volumes. At the time of writing, 76 percent of AEC's 1998 gas sales are directly committed. The remaining, uncommitted volumes comprise 12 percent of total sales targeted to markets outside Alberta and 12 percent of total sales targeted to markets inside Alberta. Storage inventory is forecast to be 25 billion cubic feet of produced gas at the beginning of the 1998-1999 winter heating season and 16 billion cubic feet at December 31, 1998.

During 1998 natural gas prices are expected to be somewhat volatile owing to the impact of El Niño. If prices are lower, natural gas net backs per unit are expected to be lower than 1997 levels.

E&P NET DEBT-TO-CASH FLOW (TIMES)

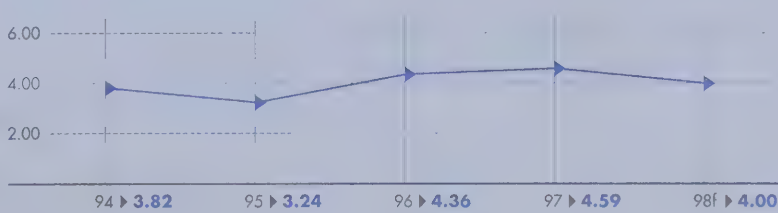
AEC has a strong balance sheet on which to expand its E&P operations.



E&P CONVENTIONAL OPERATING COST

($ PER BARREL OF OIL EQUIVALENT, 10:1)

AEC's E&P operating costs are among the lowest in the industry.



Warm winter weather will affect storage levels which will in turn have an impact on price levels over the summer. The U.S. market is expected to continue to offer higher prices than domestic markets. Access to the U.S. market is expected to improve with new pipeline capacity targeted to be in service in late 1998.

Sales of oil and liquids are expected to grow to 63,000 barrels per day with approximately the following mix;

- Light and NGLs 77%
- Heavy 23%

During 1998, oil prices are expected to further weaken due to softening demand and increasing world production. Oil net backs per unit are expected to be lower than 1997 levels as anticipated price declines are expected to offset reductions in both royalties and operating costs. Exploration and development capital investment is targeted to be near $700 million and will be directed to oil and natural gas exploration and development activities. AEC is targeting to drill 500 wells in 1998.

Capital investments in Syncrude of approximately $900 million (AEC share) over the next ten years are expected to approximately double AEC's share of production to over 56,000 barrels per day and to reduce operational costs to under $11 per barrel, in 1997 dollars, by the year 2007.

Transportation, Storage and Processing operations are expected to generate higher Operating Cash Flow as a result of capacity improvements on the Express Pipeline System.

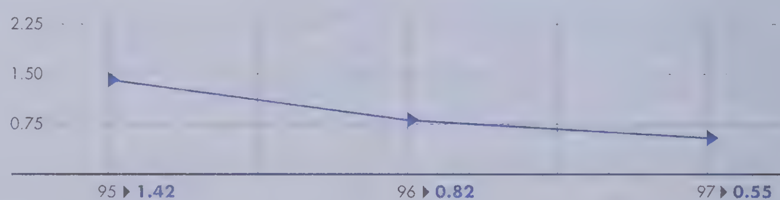
The Company will continue to assess the way in which it finances its operations to achieve its growth targets in a financially prudent manner. The Company intends to finance its 1998 budgeted capital program through Cash Flow from Operations, long term debt and other financing vehicles that optimize full cycle capital returns.

February 18, 1998

E&P G&A EXPENSE

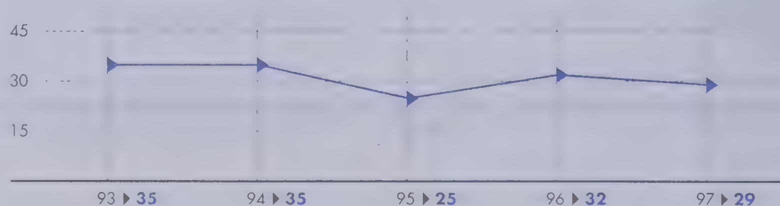
($ PER BARREL OF OIL EQUIVALENT, 10:1)

AEC has dramatically increased its efficiency.



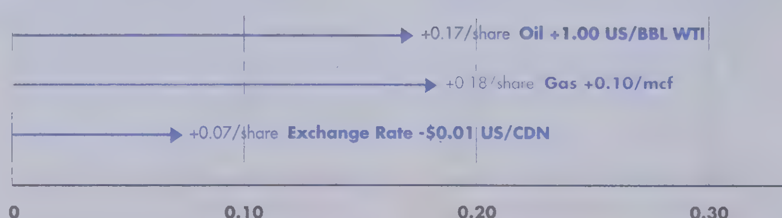
CORPORATE CAPITAL STRUCTURE (% DEBT)

AEC invested 181 percent of its cash flow in 1997 and improved its capital structure.



SENSITIVITIES (CASH FLOW PER SHARE)

AEC is well positioned to benefit from improved commodity prices.



MANAGEMENT REPORT

The accompanying consolidated financial statements and all information in this annual report are the responsibility of Management. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect Management's best judgements. Financial information contained throughout this annual report is consistent with these financial statements.

The Company has developed and maintains an extensive system of internal control that provides reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report the Company's operating and financial results and that the Company's assets are safeguarded. The Company's Internal Audit department reviews and evaluates the adequacy of and compliance with the Company's internal controls. As well, it is the policy of the Company to maintain the highest standard of ethics in all its activities.

AEC's Board of Directors has approved the information contained in the financial statements. The Board fulfills its responsibility regarding the financial statements mainly through its Audit Committee.

Price Waterhouse, an independent firm of chartered accountants, was appointed by a vote of shareholders at the Company's last annual meeting to audit the consolidated financial statements and provide an independent professional opinion.

Gwyn Morgan
President & Chief Executive Officer
February 18, 1998

John D. Watson
Vice-President, Finance & Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Alberta Energy Company Ltd.:

We have audited the consolidated balance sheets of Alberta Energy Company Ltd. as at December 31, 1997 and December 31, 1996 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and December 31, 1996 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1997, in accordance with generally accepted accounting principles.

Price Waterhouse
Chartered Accountants
Calgary, Canada
February 6, 1998

CONSOLIDATED STATEMENT OF EARNINGS

$ millions, except per share amounts, year ended December 31

	97	96	95
Revenues, Net of Royalties			
Exploration and production	$ 1,208.6	$ 932.6	$ 580.1
Transportation, storage and processing (Note 4)	508.3	189.5	152.9
	1,716.9	1,122.1	733.0
Costs, Expenses and Other			
Operating	450.5	372.1	279.3
Cost of product purchased	631.0	246.4	126.9
General and administrative	28.1	32.4	35.2
Interest, net (Note 5)	48.9	53.4	29.8
Depreciation, depletion and amortization	356.5	285.8	155.8
Additional depletion and amortization (Note 9)	84.9	–	–
Dilution gain (Note 2)	178.0	–	–
Earnings Before the Undernoted	295.0	132.0	106.0
Income taxes (Note 6)	80.5	79.0	49.7
Minority interest	14.8	–	–
Net Earnings from Continuing Operations	199.7	53.0	56.3
Net Earnings from Discontinued Operations (Note 7)	–	15.0	53.9
Net Earnings	$ 199.7	$ 68.0	$ 110.2
Earnings from Continuing Operations per Common Share			
Basic	$ 1.78	$ 0.51	$ 0.75
Fully diluted	$ 1.73	$ 0.51	$ 0.72
Earnings per Common Share			
Basic	$ 1.78	$ 0.65	$ 1.47
Fully diluted	$ 1.73	$ 0.65	$ 1.44

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

$ millions, year ended December 31

	97	96	95
Balance, Beginning of Year	$ 493.0	$ 464.7	$ 384.3
Net Earnings	199.7	68.0	110.2
	692.7	532.7	494.5
Common share dividends	(44.5)	(39.7)	(29.8)
Balance, End of Year	$ 648.2	$ 493.0	$ 464.7

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

$ millions as at December 31	97	96
ASSETS		
Current Assets		
Cash and short-term investments	$ 44.8	$ 76.7
Accounts receivable and accrued revenue	325.5	204.3
Inventories (Note 8)	72.8	36.8
	443.1	317.8
Capital Assets (Note 9)	3,907.8	3,550.5
Investments and Other Assets	47.0	23.9
	$ 4,397.9	$ 3,892.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 386.8	$ 311.2
Current portion of long-term debt	1.5	1.5
	388.3	312.7
Long-Term Debt (Note 10)	1,017.1	968.3
Other Liabilities (Note 11)	79.2	62.3
Deferred Income Taxes	585.4	518.9
Minority Interest (Note 2)	114.2	–
	2,184.2	1,862.2
Shareholders' Equity		
Share capital (Note 12)	1,546.0	1,532.0
Retained earnings	648.2	493.0
Foreign currency translation adjustment	19.5	5.0
	2,213.7	2,030.0
	$ 4,397.9	$ 3,892.2

See accompanying Notes to the Consolidated Financial Statements.

Approved by the Board

Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

$ millions, except per share amounts, year ended December 31	97	96	95
Operating Activities			
Net earnings from Continuing Operations	**$ 199.7**	$ 53.0	$ 56.3
Depreciation, depletion and amortization	**356.5**	285.8	155.8
Additional depletion and amortization	**84.9**	–	–
Deferred income taxes	**67.8**	70.6	24.2
Minority interest	**14.8**	–	–
Dilution gain	**(178.0)**	–	–
Other	**(1.0)**	2.5	9.9
Cash Flow from Continuing Operations	**544.7**	411.9	246.2
Cash Flow from Discontinued Operations	**–**	–	24.5
Cash Flow from Operations	**544.7**	411.9	270.7
Net change in non-cash working capital – Continuing Operations	**(84.8)**	(50.8)	31.3
Net change in non-cash working capital – Discontinued Operations	**–**	–	37.1
	459.9	361.1	339.1
Investing Activities			
Acquisition	**–**	(1,120.9)	–
Capital investment – Continuing Operations	**(984.4)**	(908.0)	(271.0)
Capital investment – Discontinued Operations	**–**	–	(30.9)
Net proceeds on sale of AEC Pipelines, L.P. (Note 2)	**295.4**	–	–
Proceeds on disposal of assets (Note 2)	**195.0**	51.5	19.4
Proceeds on disposal of Forest Products	**–**	15.0	218.0
Investments and other	**–**	(9.9)	(2.4)
Net change in non-cash working capital	**(9.9)**	80.7	(13.5)
	(503.9)	(1,891.6)	(80.4)
(Decrease) Increase in cash before financing activities	**(44.0)**	(1,530.5)	258.7
Financing Activities			
Issue of long-term debt	**142.1**	332.0	25.0
Increase in long-term debt on acquisition	**–**	566.0	–
Repayment of long-term debt – Continuing Operations	**(100.7)**	(149.3)	(103.0)
Financing activities of Discontinued Operations	**–**	–	(106.2)
Common shares issued on acquisition	**–**	540.4	–
Issue of common shares	**14.0**	293.6	19.0
Common share dividends	**(44.5)**	(39.7)	(29.8)
AEC Pipelines, L.P. distribution (Note 2)	**(13.1)**	–	–
Other	**14.3**	–	–
	12.1	1,543.0	(195.0)
(Decrease) increase in cash and short-term investments	**$ (31.9)**	$ 12.5	$ 63.7
Cash and short-term investments, end of year	**$ 44.8**	$ 76.7	$ 64.2
Cash Flow from Continuing Operations per Common Share			
Basic	**$ 4.87**	$ 3.93	$ 3.28
Fully diluted	**$ 4.67**	$ 3.82	$ 3.18
Cash Flow from Operations per Common Share			
Basic	**$ 4.87**	$ 3.93	$ 3.61
Fully diluted	**$ 4.67**	$ 3.82	$ 3.51

See accompanying Notes to the Consolidated Financial Statements.

Tabular amounts in $ millions, unless otherwise indicated

NOTE 1
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Alberta Energy Company Ltd. (the "Company") and its subsidiaries, all of which are wholly owned, except for AEC Pipelines, L.P., which is 70% owned.

Investments in jointly controlled companies, jointly controlled partnerships and unincorporated joint ventures are accounted for using the proportionate consolidation method, whereby the Company's proportionate share of revenues, expenses, assets and liabilities are included in the accounts.

Investments in companies and partnerships over which the Company has significant influence are accounted for using the equity method.

A listing of major subsidiaries, affiliates, unincorporated joint ventures and partnerships is included on Page 72.

(B) CAPITAL ASSETS

Exploration and production

Conventional The Company accounts for conventional oil and gas properties in accordance with the Canadian Institute of Chartered Accountants' guideline on full cost accounting in the oil and gas industry.

All costs associated with the acquisition, exploration and development of oil and gas reserves are capitalized in cost centres on a country by country basis.

Depletion and depreciation are calculated using the unit-of-production method based on estimated proven reserves, before royalties. For purposes of this calculation, oil is converted to gas on an energy equivalent basis. All capitalized costs, except as noted below, are subject to depletion and depreciation including costs related to unproven properties as well as estimated future costs to be incurred in developing proven reserves. Costs of exploration and land in international cost centres are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties or impairment has occurred.

Future removal and site restoration costs are estimated and recorded over the estimated life of the reserves.

A ceiling test is applied to ensure that capitalized costs do not exceed the sum of estimated undiscounted, unescalated future net revenues from proven reserves less the cost incurred or estimated to develop those reserves, related production, interest and general and administration costs, and an estimate for restoration costs and applicable taxes. The calculations are based on sales prices and costs at the end of the year.

Oil sands Capital assets associated with surface mineable projects are accumulated, at cost, in separate cost centres. Substantially all of these costs are amortized using the unit-of-production method based on estimated proven developed reserves, applicable to each project.

Transportation, storage and processing

Capital assets related to pipelines are carried at cost and depreciated using the straight-line method over the remaining term of each applicable pipeline service agreement.

Capital assets related to the Company's natural gas liquids extraction plant operations and Gas Storage facilities are carried at cost and depreciated using the straight-line method over a term of 20 years.

(C) FOREIGN CURRENCY TRANSLATION

Operations outside Canada are considered to be self-sustaining and use their primary currency for recording substantially all transactions. The accounts of self-sustaining foreign subsidiaries are translated using the current rate method, whereby assets and liabilities are translated at year-end exchange rates while revenues and expenses are converted using average annual rates. Translation gains and losses relating to these subsidiaries are deferred and included in shareholders' equity.

Long-term debt payable in U.S. dollars is translated into Canadian dollars at the year-end exchange rate, with any resulting adjustment amortized using the straight-line method over the remaining life of the debt.

(D) PROJECT INVESTIGATION COSTS

Project investigation costs for new business opportunities are charged to earnings as incurred until such time as the commercial viability of the project is established. Subsequent expenditures are capitalized and amortized on a basis appropriate for the project.

(E) INVENTORIES

Inventories are valued at the lower of cost or estimated net realizable value.

(F) INTEREST CAPITALIZATION

Interest is capitalized during the construction phase of large capital projects.

(G) HEDGING ACTIVITIES

Settlement of crude oil and natural gas price swap agreements, which have been arranged as a hedge against commodity price and currency fluctuations, are reflected in product revenues at the time of sale of the related hedged production.

(H) COMPARATIVE FIGURES

Certain 1996 and 1995 figures have been reclassified for comparative purposes.

NOTE 2 DISPOSITIONS

AEC Pipelines, L.P.

On April 9, 1997 AEC Pipelines, L.P., a limited partnership, completed a public offering of partnership units for proceeds of $301.2 million. A portion of the net proceeds and the issue of additional partnership units to the Company were used by the partnership to acquire from the Company operating crude oil pipeline assets. In addition the partnership acquired subordinated notes and non-voting shares for $200 million in AEC Express Holdings Ltd., the principal asset of which is a 50 percent interest in the Express Pipeline System. The Company holds a 70 percent interest in the partnership and the minority interest has been reflected in these financial statements.

A dilution gain of $178 million was recorded on completion of the transaction. This gain represents the increase in the Company's share of the accounting value of the partnership equity resulting from the transaction and no income tax has been provided as the Company has no plans to dispose of the asset.

During the year, distributions to the minority interest owners of the partnership of $19.2 million were declared. Of that, $13.1 million was paid during 1997 and the remainder was paid on January 31, 1998.

Disposal of assets

During the year the Company disposed of $92.2 million of non-core producing oil and gas properties and other assets. In addition $102.8 million of oil and gas equipment and storage equipment was sold and subsequently leased under a long term operating lease agreement.

NOTE 3 ACQUISITIONS

In January 1996, the Company acquired all of the issued and outstanding common and preference shares of Conwest Exploration Company Limited ("Conwest") for consideration of 23.6 million common shares and cash. Conwest was engaged primarily in the exploration and production of oil and natural gas and had an investment portfolio and mining and hydro electric operations. On acquisition, $165 million of non-oil and gas assets of Conwest and an equivalent amount of debt were not consolidated in the financial statements, since the Company intended to dispose of these assets. These assets have been subsequently disposed.

The acquisition has been accounted for using the purchase method with the results of operations of Conwest from January 1996 included in the consolidated financial statements.

The fair value of assets acquired is as follows:

Non-cash working capital deficiency	$ (0.2)
Capital assets	1,004.4
Non-oil and gas assets	165.0
Deferred income taxes	(27.2)
Other non-current liabilities	(21.1)
Net assets acquired	1,120.9
Cash less acquisition costs	(14.5)
	$ 1,106.4
Financed By:	
Cash paid	$ 350.5
Value assigned to common shares issued	540.4
Long-term debt assumed	215.5
	$ 1,106.4

NOTE 4
EQUITY EARNINGS

Transportation, storage and processing includes equity earnings from the Company's investments of $4.6 million (1996 – $6.3 million; 1995 – $3.2 million).

NOTE 5
INTEREST, NET

		1997		1996		1995
Interest expense – long term debt	$	67.5	$	61.4	$	46.0
Interest expense – other		(1.4)		0.5		2.4
Interest income		(10.3)		(2.7)		(4.2)
		55.8		59.2		44.2
Less:						
Interest allocated to Discontinued Operations (Note 7)		–		–		14.4
Capitalized interest		6.9		5.8		–
Interest, Net	$	48.9	$	53.4	$	29.8

NOTE 6
INCOME TAXES

The provision for income taxes has been allocated as follows:

		1997		1996		1995
Continuing Operations	$	80.5	$	79.0	$	49.7
Discontinued Operations (Note 7)		–		–		13.7
Total income taxes	$	80.5	$	79.0	$	63.4

		1997		1996		1995
Current	$	7.7	$	4.0	$	36.8
Deferred		67.0		70.6		24.2
Alberta royalty tax credit		(1.5)		(1.5)		(1.5)
Large corporations tax		7.3		5.9		3.9
Income taxes	$	80.5	$	79.0	$	63.4

The following table reconciles income taxes calculated at statutory rates with actual income taxes:

		1997		1996		1995
Earnings before income taxes from						
Continuing Operations	$	280.2	$	132.0	$	106.0
Discontinued Operations		–		–		30.2
Total	$	280.2	$	132.0	$	136.2
Income taxes at statutory rate of 44.6%	$	125.0	$	58.9	$	60.7
Effect on taxes resulting from:						
Non-deductibility of crown payments and depreciation, depletion and amortization		66.2		56.5		21.1
Non-deductible additional depletion		26.3		–		–
Non-taxable dilution gain (Note 2)		(79.4)		–		–
Federal resource allowance		(56.9)		(41.4)		(21.5)
Alberta royalty tax credit		(1.5)		(1.5)		(1.5)
Large corporations tax		7.3		5.9		3.9
Other		(6.5)		0.6		0.7
Income taxes (Effective rate: 1997 -28.7%, 1996 – 59.8%, 1995 – 46.5%)	$	80.5	$	79.0	$	63.4

The Company's U.S. subsidiaries have approximately U.S. $4.2 million of tax losses available which can be applied, with certain restrictions, against future taxable income earned in the U.S. The benefit of these tax losses, which will expire in 2004, has not been recorded.

The amount of capital assets without a tax base is $541.0 million (1996 – $577.8 million). The amount of tax pools available are $1.8 billion (1996 – $1.5 billion).

NOTE 7 DISCONTINUED OPERATIONS

On August 25, 1995 the Company sold its Forest Products Division for net proceeds of $218.0 million. The Forest Products Division has been reflected in the consolidated financial statements and notes on a discontinued operations basis. A recovery of Income Tax relating to the Forest Products Division was recognized in 1996.

The results of discontinued operations for the comparative periods are summarized as follows:

	1997	1996	1995
Revenue	$ –	$ –	$ 135.2
Operating costs	–	–	83.9
Depreciation, depletion and amortization	–	–	6.7
Operating income	–	–	44.6
Interest and foreign exchange	–	–	14.4
Income taxes	–	–	13.7
Net earnings from operations	–	–	16.5
Gain on sale	–	15.0	37.4
Net earnings from Discontinued Operations	$ –	$ 15.0	$ 53.9

NOTE 8 INVENTORIES

	1997	1996
Parts, supplies and other	$ 27.0	$ 17.6
Product	45.8	19.2
	$ 72.8	$ 36.8

NOTE 9 CAPITAL ASSETS

	1997			1996		
Property, Plant and Equipment	Cost	Accumulated DD&A*	Net	Cost	Accumulated DD&A*	Net
Exploration and production						
Conventional	$ 4,461.8	$ 1,746.8	$ 2,715.0	$ 3,881.1	$ 1,393.9	$ 2,487.2
Oilsands	544.4	171.0	373.4	503.6	158.8	344.8
Transportation, storage and processing	1,113.8	294.4	819.4	967.4	248.9	718.5
	$ 6,120.0	$ 2,212.2	$ 3,907.8	$ 5,352.1	$ 1,801.6	$ 3,550.5

* *Depreciation, depletion and amortization*

Included in Transportation, Storage and Processing is $28.1 million related to cushion gas, required to operate the AECO-C storage facility, which is not subject to depletion.

In 1996, Transportation, Storage and Processing includes $348.7 million (1995 – nil) related to the Express Pipeline project for construction in progress, which was not depreciated. Interest was capitalized on the Express Pipeline project in 1997 in the amount of $6.9 million (1996 – $5.8 million).

At December 31, 1997 $7.0 million (1996 – $31.9 million; 1995 – $19.7 million) of expenditures in International cost centers was excluded from depletable costs.

The prices used in the ceiling test evaluation of the Company's conventional reserves at December 31, 1997 were as follows:

West Texas Intermediate ($18.32 U.S.)	$ 26.18 per barrel
Natural gas:	$ 2.18 per mcf
Crude oil:	$ 14.64 per barrel
Natural gas liquids:	$ 22.73 per barrel
International crude oil:	$ 21.35 per barrel

Additional depletion and amortization includes additional depletion on International cost centers of $72.4 million as a result of a ceiling test evaluation and $12.5 million of additional amortization of Transportation, Storage and Processing capital assets.

Depreciation, depletion and amortization includes $52.7 million (1996 – $52.8 million; 1995 – $12.9 million) of depletion related to costs which are not deductible for income tax purposes.

NOTE 10
LONG-TERM DEBT

	Note Reference	1997	1996
ALBERTA ENERGY COMPANY LTD.			
Canadian dollar debt			
Revolving credit and term loan borrowings	B		
Notes payable		$ 528.4	$ 424.0
Unsecured debentures	C		
9.50%, due February 15, 2000		25.0	25.0
7.60%, due March 15, 2001		50.0	50.0
9.85%, due March 15, 2002		25.0	25.0
8.15%, due July 31, 2003		100.0	100.0
6.60%, due June 30, 2004		50.0	50.0
8.50%, due March 15, 2011		50.0	50.0
U.S. dollar debt			
U.S.$125 million unsecured senior notes	D		
6.99%, due August 2001		57.2	54.8
7.34%, due August 2006		121.5	116.4
U.S. revolving credit and term loan borrowings	B		
Term loans		1.7	63.3
		1,008.8	958.5
NON-RECOURSE LONG-TERM DEBT*			
Canadian dollar debt			
Term loans	E	9.8	11.3
Total long-term debt		1,018.6	969.8
Current portion of long-term debt		1.5	1.5
		$ 1,017.1	$ 968.3

* *Amounts stated are AEC's proportionate share of debt of other entities.*

(A) MANDATORY FIVE-YEAR DEBT REPAYMENTS

The minimum annual repayments of long-term debt required over each of the next five years are as follows:

1998	1999	2000	2001	2002
$ 1.5	$ 1.5	$ 40.8	$ 94.4	$ 26.5

(B) REVOLVING CREDIT AND TERM LOAN BORROWINGS

Legal Entity	Loan Facility	Currency	$ Utilized	
Alberta Energy Company Ltd.	$875 million	Canadian dollars or U.S. equivalent	$	524 million
AEC Pipelines, L.P.	$50 million	Canadian dollars or U.S. equivalent	$	2 million
AEC Oil Sands Ltd.	$25 million	Canadian dollars or U.S. equivalent	$	6 million
AEC Oil Sands, L.P.	$25 million	Canadian dollars or U.S. equivalent	$	nil
	$975 million		$	532 million
Alenco Inc.	$50 million	U.S. dollars	$	1 million

On a consolidated basis, the Company and its subsidiaries have nine revolving credit and term loan facilities in place totaling $975 million Canadian and $50 million U.S. totaling $1,046 million Canadian equivalent at December 31, 1997.

The Company alone has five revolving credit and term loan facilities in place totaling $875 million. The five facilities are fully revolving for 364-day periods with provision for extensions at the option of the lenders and upon notice from the Company. If not extended, two facilities convert to non-revolving reducing loans for terms of 6.5 years, one for a term of 7 years and two for terms of 8 years.

All five loan facilities are unsecured and currently bear interest either at the lenders' rates for Canadian prime commercial or U.S. base rate loans, or at Bankers' Acceptance rates, or at LIBOR plus applicable margins.

The Company's subsidiaries have four unsecured revolving credit and term loan facilities. The facilities are fully revolving for 364-day periods with provisions for extensions at the option of the lender following notice from the subsidiary. If not extended, the facilities convert to non-revolving reducing facilities to be repayable in full in five to eight years. The facilities currently bear interest either at the lender's rates for Canadian prime commercial or U.S. base rate loans, or at Bankers' Acceptance rates, or at LIBOR plus applicable margins.

Notes payable consist of Bankers' Acceptances and Commercial Paper maturing at various dates with a weighted average interest rate of 4.34% (1996 – 3.56%). Notes payable shown as long-term debt represent amounts which are not expected to require the use of working capital during the year and are fully supported by the availability of term loans under the revolving credit facilities.

(C) UNSECURED DEBENTURES

In 1996, under its medium term note program, the Company issued $150 million in unsecured debentures.

(D) U.S. UNSECURED SENIOR NOTES

The Company has outstanding, in two tranches, senior notes in the amount of U.S. $125 million. One in the amount of U.S. $40 million bearing interest payable quarterly at 6.99%. Terms of this tranche require principal repayments of U.S. $10 million in August, 2000 and U.S. $30 million at maturity in August, 2001. The second tranche in the amount of U.S. $85 million bears interest payable quarterly at 7.34% and requires principal repayments of U.S. $28.3 million in August, 2004 and August, 2005 and U.S. $28.4 million at maturity in August, 2006.

(E) TERM LOANS

AEC has a 49.995 percent interest in Pan-Alberta Resources Inc. ("PARI") which has a non-recourse secured term credit facility which finances its investment in its natural gas liquids extraction plant joint venture. The term credit facility is secured by PARI's interest in the joint venture assets and certain related agreements. The debt is repayable over the initial term of the related joint venture contracts in equal monthly installments totaling $1.5 million (49.995 percent) per year.

Canadian dollar loans bear interest at the lenders' rates for Canadian prime commercial loans or at Bankers' Acceptance rates plus applicable margins.

At year-end, outstanding obligations under the facility included Bankers' Acceptances (Canadian) and Canadian dollar loans of $9.8 million (49.995 percent) ($11.3 million in 1996).

NOTE 11
OTHER LIABILITIES

	1997	1996
Future removal and site restoration costs	$ 50.9	$ 42.6
Long-term liabilities related to Syncrude	6.6	6.6
Deferred revenue and other	21.7	13.1
	$ 79.2	$ 62.3

NOTE 12
SHARE CAPITAL

Authorized

20,000,000	First Preferred Shares
20,000,000	Second Preferred Shares
20,000,000	Third Preferred Shares
Unlimited	Common Shares
5,000,000	Non-Voting Shares

	1997		1996	
	Number of Shares	Amount	Number of Shares	Amount
Common Shares				
Balance, beginning of year	111,487,101	$ 1,532.0	75,539,019	$ 692.3
Issued on Acquisition (Note 3)*	–	–	23,624,817	540.4
Issued for cash	–	–	11,250,000	279.7
Employee Share Option Plan	505,686	10.1	910,764	15.5
Shareholder Investment Plan	115,084	3.9	162,501	4.1
Balance, end of year	112,107,871	$ 1,546.0	111,487,101	$ 1,532.0

** includes 453,290 common shares which have not been issued at December 31, 1997 (December 31, 1996 – 471,284)*

The Employee Share Option Plan provides for granting to employees of the Company and its subsidiaries options to purchase Common Shares of the Company. Each option granted under the plan expires after seven years and may be exercised in cumulative annual amounts of 25 percent on or after each of the first four anniversary dates of the grant.

At December 31, 1997, employee share options, exercisable between 1998 and 2004 were outstanding to purchase 7,061,714 (1996 – 4,684,050) Common Shares at prices ranging from $12.04 to $35.05 per share, with an average of $25.60 per share.

	1997	1996
Common Shares under option, beginning of year	4,684,050	3,093,002
Share options granted	3,057,850	2,986,250
Share options exercised	(505,686)	(910,764)
Share options canceled	(174,500)	(484,438)
Common Shares under option, end of year	7,061,714	4,684,050

The number of Common Shares reserved for issuance under the Employee Share Option Plan was 10,430,238 at December 31, 1997 (8,435,924 at December 31, 1996).

NOTE 13
FINANCIAL INSTRUMENTS

The Company's financial instruments that are included in the Consolidated Balance Sheet are comprised of cash and short-term investments, accounts receivable, and all current liabilities and long-term borrowings.

(A) OIL AND GAS PRICE HEDGING

During 1997, no oil fixed price swap agreements were in place. In 1996, 24,500 barrels of oil per day was subject to fixed price swap agreements at $23.61 per barrel resulting in a reduction in revenue totaling $58.2 million. In addition, in 1996 40 MMcf per day of natural gas was subject to fixed price swap agreements at US$1.32 per Mcf resulting in a $6.1 million reduction in revenue.

A total of 6.6 MMcf per day of gas is subject to fixed price swap arrangements for settlement in 1998 at an average swap price of $2.56 U.S. per Mcf.

(B) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments that are included in the Consolidated Balance Sheet, other than long-term borrowings, approximate their carrying amount due to the short-term maturity of those instruments.

The estimated fair values of long-term borrowings have been determined based on market information where available, or by discounting future payments of interest and principal at estimated interest rates that would be available to the Company at year end.

	1997		1996	
	Balance Sheet Amount	Fair Value	Balance Sheet Amount	Fair Value
Long-term debt	$ 1,017.1	$ 1,058.0	$ 968.3	$ 1,003.4

(C) CREDIT RISK

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. All natural gas swap agreements are with major financial institutions in Canada and the United States.

(D) INTEREST RATE RISK

At December 31, 1997, the increase or decrease in Net Earnings for each one percent change in interest rates on floating rate debt amounts to $3.1 million (1996 – $2.9 million).

(E) INTEREST RATE SWAP OF AN AFFILIATE

At December 31, 1997 an affiliate had an interest rate swap outstanding with an unrealized settlement liability of US$11.2 million (AEC's share). On February 6, 1998, as part of the completion of non-recourse project debt financing of the affiliate, the swap was settled for US $14.6 million (AEC's share) and this amount will be amortized over the life of the project debt.

NOTE 14 SUPPLEMENTARY INFORMATION

(A) INVESTMENTS PROPORTIONATELY CONSOLIDATED

The Company conducts a substantial portion of its oil and gas activity through unincorporated joint ventures which are accounted for using the proportionate consolidation method. In addition, certain investments in the Transportation, Storage and Processing segment are proportionately consolidated. These include the 50 percent owned Express Pipeline System, the 50 percent owned Marquest Energy Group, the 49.9% owned Pan-Alberta Resources Inc., the 35% owned Empress Straddle Plant and the 33% owned Ethane Gathering System. Included in the Company's accounts are the following amounts related to these activities:

	1997	1996
Current assets	$ 77.5	$ 14.9
Total assets	547.4	388.6
Current liabilities	73.2	12.4
Total liabilities	110.1	66.0
Revenues	386.8	74.5
Net earnings	12.7	10.5
Cash flow from Operations	21.2	13.9
Financing activities	100.2	349.9
Investing activities	117.8	363.8

(B) PENSION PLANS

The Company has both a defined benefit pension plan and a defined contribution plan which cover substantially all employees. The defined benefit pension plan provides pension benefits upon retirement based on length of service and final average earnings. Defined contribution benefits are determined by the value of contributions and the return on investment of these contributions.

The cost of pension benefits earned by employees is determined using the projected unit credit method and is expensed as services are rendered. This cost is actuarially determined and reflects management's best estimate of the pension plan's expected investment yields and the expected salary escalation, mortality rates, termination dates and retirement ages of pension plan members. The plan is funded as actuarially determined in accordance with regulatory requirements through contributions to a trust fund. The costs of defined contribution pension benefits are based on a percentage of salary.

The cumulative difference between the amounts funded and expensed is reflected as a deferred asset in the consolidated balance sheet.

At December 31, 1997, the market value of defined benefit pension fund assets was $65.4 million (1996 – $60.2 million) and the accrued pension liability, as estimated by the Company's actuaries, was $64.9 million (1996 – $54.0 million).

In addition, one of the Company's unincorporated joint ventures has a defined benefit pension plan. At December 31, 1997, the market value of the Company's share of pension fund assets was $80.3 million (1996 – $70.6 million) and the Company's share of accrued pension liability, as estimated by the joint venture's actuaries, was $73.7 million (1996 – $72.0 million).

(C) RELATED PARTY TRANSACTIONS

During the year the Company sold approximately $30.4 million (1996 – $7.3 million) of natural gas and $41.6 million (1996 – $ nil) of crude oil to affiliates at market prices, $6.8 million of which is included in accounts receivable at year-end (1996 – $4.8 million).

(D) NET CHANGE IN NON-CASH WORKING CAPITAL

	1997	1996	1995
Operating activities			
Continuing operations			
Accounts receivable and accrued revenue	$ (121.1)	$ (29.9)	$ (6.1)
Inventories	(36.0)	(7.7)	5.7
Accounts payable and accrued liabilities	72.3	(13.2)	31.7
	$ (84.8)	$ (50.8)	$ 31.3
Discontinued operations			
Accounts receivable and accrued revenue	$ –	$ –	$ 27.1
Inventories	–	–	32.7
Accounts payable and accrued liabilities	–	–	(22.7)
	$ –	$ –	$ 37.1
Investing activities			
Accounts payable and accrued liabilities	$ (9.9)	$ 80.7	$ (13.5)

NOTE 15 UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING

The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles. They differ from those generally accepted in the United States in the following respects:

(A) FULL COST ACCOUNTING

Under Canadian Generally Accepted Accounting Principles (GAAP), a ceiling test is applied to ensure that capitalized costs do not exceed the sum of estimated undiscounted, unescalated future net revenues from proven reserves less the cost incurred or estimated to develop those reserves, related production, interest and general and administration costs, and an estimate for restoration costs and applicable taxes.

Under the Full Cost method of accounting in the United States, costs accumulated in each cost centre are limited to an amount equal to the present value, discounted at 10%, of the estimated future net operating revenues from proven reserves, net of restoration costs and income taxes.

(B) INCOME TAXES

Under Canadian GAAP the Company provides for potential future taxes using the deferred credit method under which tax provisions are established using tax rates and regulations applicable in the year the provision is recorded. These remain unchanged despite subsequent changes in rates and regulations.

In the United States, Statement of Financial Accounting Standards No. 109 (FAS 109), "Accounting for Income Taxes," requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, FAS 109 generally considers all expected events including enacted changes in laws or rates.

(C) FOREIGN CURRENCY TRANSLATION

Long-term debt in foreign currencies was translated at the rate of exchange in effect at the end of the year. Unrealized exchange gains and losses arising on translation were deferred and amortized over the remaining terms of the debt. United States Generally Accepted Accounting Principles require that such gains and losses be reflected in the period in which they arise.

(D) EARNINGS PER SHARE

Under Canadian GAAP the fully diluted earnings related to the number of shares issued under employee option plans is determined using the average exercise price for all options outstanding.

Under U.S. GAAP market price is used in the determination of the fully diluted earnings per share.

(E) UNITED STATES EARNINGS

If the consolidated financial statements had been prepared in accordance with Generally Accepted Accounting Principles in the United States the following adjustments would be required:

* see '98's notes for comp. income.

	1997	1996	1995
Net earnings according to Canadian GAAP	$ 199.7	$ 68.0	$ 110.2
Impact of U.S. accounting principles:			
Foreign exchange	(7.0)	–	–
Income taxes	1.3	6.1	(2.2)
Net earnings according to U.S. GAAP	$ 194.0	$ 74.1	$ 108.0
Earnings per share			
Basic	$ 1.73	$ 0.71	$ 1.44
Fully diluted	$ 1.73	$ 0.71	$ 1.43

The adjustments under U.S. GAAP would result in changes to the consolidated Balance Sheet of the Company as follows:

	As at December 31, 1997		As at December 31, 1996	
	As Reported	U.S. GAAP	As Reported	U.S. GAAP
Assets				
Current assets	$ 443.1	$ 443.1	$ 317.8	$ 317.8
Capital assets	3,907.8	4,225.0	3,550.5	3,898.2
Investments and other assets	47.0	40.0	23.9	23.9
	$ 4,397.9	$ 4,708.1	$ 3,892.2	$ 4,239.9
Liabilities and Shareholders' Equity				
Current liabilities	$ 388.3	$ 388.3	$ 312.7	$ 312.7
Long-term debt	1,017.1	1,017.1	968.3	968.3
Other liabilities	79.2	79.2	62.3	62.3
Deferred income taxes	585.4	929.5	518.9	894.9
Minority interest	114.2	114.2	–	–
Shareholders' equity	2,213.7 (33.9)	2,179.8	2,030.0	2,001.7
	$ 4,397.9	$ 4,708.1	$ 3,892.2	$ 4,239.9

(F) STATEMENT OF CHANGES IN FINANCIAL POSITION

Under Canadian GAAP acquisitions are reported in the statement of changes in financial position including non-cash transactions. These non-cash transactions, which include the exchange of shares ($540.4 million) and debt assumed ($215.5 million) as a part of the Conwest acquisition (Note 3) in 1996, would be excluded from the U.S. GAAP statement of cash flows.

The adjustments under U.S. GAAP would result in changes to the consolidated Statement of Changes in Financial Position of the Company as follows:

		1996
Investing Activities, as reported	$	(1,891.6)
Non-cash items		755.9
Investing Activities, U.S. GAAP	$	(1,135.7)
Financing Activities, as reported	$	1,543.0
Non-cash items		755.9
Financing Activities, U.S. GAAP	$	787.1

NOTE 16 SEGMENTED INFORMATION

	Exploration and Production			Transportation, Storage and Processing			Total		
	1997	1996	1995	1997	1996	1995	1997	1996	1995
Revenue	$1,344.7	$1,069.6	$ 644.4	$ 508.3	$ 189.5	$ 152.9	$1,853.0	$1,259.1	$ 797.3
Royalties	136.1	137.0	64.3	–	–	–	136.1	137.0	64.3
Revenue, net of royalties	1,208.6	932.6	580.1	508.3	189.5	152.9	1,716.9	1,122.1	733.0
Operating costs	306.6	276.5	208.5	143.9	95.6	70.8	450.5	372.1	279.3
Cost of product purchased	378.2	246.4	126.9	252.8	–	–	631.0	246.4	126.9
Operating cash flow	523.8	409.7	244.7	111.6	93.9	82.1	635.4	503.6	326.8
DD&A	313.1	258.3	131.6	35.3	22.4	21.1	348.4	280.7	152.7
Additional depletion and amortization	72.4	–	–	12.5	–	–	84.9	–	–
Dilution gain	–	–	–	178.0	–	–	178.0	–	–
Operating income	138.3	151.4	113.1	241.8	71.5	61.0	380.1	222.9	174.1
Less:									
General & Administrative	20.9	28.1	29.1	7.2	4.3	6.1	28.1	32.4	35.2
Corporate DD&A	7.1	4.3	2.3	1.0	0.8	0.8	8.1	5.1	3.1
Interest, net	28.5	30.3	9.7	20.4	23.1	20.1	48.9	53.4	29.8
Income taxes	79.8	60.9	34.4	0.7	18.1	15.3	80.5	79.0	49.7
Minority interest	–	–	–	14.8	–	–	14.8	–	–
Net Earnings – Continuing Operations	$ 2.0	$ 27.8	$ 37.6	$ 197.7	$ 25.2	$ 18.7	199.7	53.0	56.3
Net Earnings – Discontinued Operations							–	15.0	53.9
Net Earnings							$ 199.7	$ 68.0	$ 110.2
Identifiable assets	$3,419.5	$ 3,097.6	$1,796.1	$ 978.4	$ 794.6	$ 422.4	$ 4,397.9	$3,892.2	$2,218.5
Additions to capital assets and investments	$ 780.4	$ 513.3	$ 239.9	$ 204.0	$ 400.2	$ 32.6	$ 984.4	$ 913.5	$ 272.5

"Exploration and Production" includes conventional oil and gas production and marketing, International and Syncrude.
"Transportation, Storage and Processing" includes pipelines, gas storage, natural gas processing and to June 30, 1996, the Syncrude utility operations.
Corporate assets and costs have been allocated to the divisions.

NOTE 17 COMMITMENTS

The Company has committed to certain payments over the next several years as follows:

	1998	1999	2000	2001	2002
Natural gas transportation	$ 63.9	$ 72.5	$ 71.4	$ 50.0	$ 49.4
Equipment operating leases	9.6	9.6	9.6	9.6	9.6
Office leases	6.2	6.3	6.5	6.3	6.4
Total	$ 79.7	$ 88.4	$ 87.5	$ 65.9	$ 65.4

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AEC WEST OPERATIONS OFFICE
3700, 707 - 8 Avenue S.W.
Calgary, Alberta T2P 1H5
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TRANSFER AGENTS & REGISTRARS
Common Shares
CIBC MELLON TRUST COMPANY
Calgary, Vancouver, Regina, Winnipeg, Toronto, Montreal, Halifax, and
CHASEMELLON SHAREHOLDER SERVICES, L.L.C.
New York

TRUSTEE & REGISTRAR
CIBC MELLON TRUST COMPANY
8.15% Debentures
Calgary, Vancouver, Regina, Winnipeg, Toronto, Montreal, Halifax
Medium Term Note Debentures
Calgary, Toronto

Investors are encouraged to contact CIBC Mellon Trust Company for information regarding their security holdings. They can be reached via the AnswerLine (416) 643-5500 or toll-free throughout North America at 1-800-387-0825.

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AUDITORS (FINANCIAL)
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS
Calgary, Alberta

AUDITORS (OIL & GAS RESERVES)
McDANIEL & ASSOCIATES CONSULTANTS LTD.
Calgary, Alberta
GILBERT LAUSTSEN JUNG ASSOCIATES LTD.
Calgary, Alberta

STOCK EXCHANGES
Common Shares are listed on the Toronto and Montreal stock exchanges (symbol "AEC") and on the New York Stock Exchange (symbol "AOG").

ANNUAL INFORMATION FORM (FORM 40-F)
AEC's Annual Information Form (AIF) is filed with securities regulators in Canada and the United States. Under the Multi-Jurisdictional Disclosure System (MJDS), AEC's AIF is filed as Form 40-F with the U.S. Securities and Exchange Commission.

DIVIDEND REINVESTMENT & SHARE PURCHASE PLAN
AEC offers a Dividend Reinvestment and Share Purchase Plan which provides a convenient method for shareholders to reinvest their cash dividends and/or make cash investments to purchase additional Common Shares. Details may be obtained by contacting CIBC Mellon Trust Company at the AnswerLine phone numbers on this page.

MAJOR OPERATING SUBSIDIARIES, AFFILIATES & PARTNERSHIPS

EXPLORATION & PRODUCTION

100%	AEC Energy Resources Ltd.
100%	A.E.C. Argentina S.A.
100%	AER (Thailand) Ltd.
100%	AEC West Ltd.
100%	AEC Oil & Gas Partnership
100%	AEC Oil Sands Ltd.
100%	AEC Oil Sands L.P.
100%	Alenco Inc.
100%	Alenco Oil & Gas [N.D.] Inc.
100%	Alenco Resources Inc.
100%	AEC Marketing (USA) Inc.

TRANSPORTATION, STORAGE & PROCESSING

100%	AEC Pipelines Ltd.
70%	AEC Pipelines, L.P.
50%	Express Pipeline
50%	Platte Pipe Line Company
50%	Marquest Energy Group
100%	Alenco Pipelines Inc.
100%	Alenco Iroquois Pipelines Inc.
6%	Iroquois Gas Transmission System, L.P.
49.9%	Pan-Alberta Resources Inc. (40% voting)
100%	Wild Goose Storage Inc.
100%	AEC Storage and Hub Services Inc.

MAJOR JOINT VENTURES

EXPLORATION & PRODUCTION

13.75%	Syncrude (AEC Oil Sands, L.P.) (includes 75% of AEC Oil Sands Limited Partnership's 5% interest)

TRANSPORTATION, STORAGE & PROCESSING

35%	Empress Straddle Plant
33.3%	Ethane Gathering System

ABBREVIATIONS

bbl	barrel(s)
bbl/d	barrel(s) per day
Bcf	billion cubic feet
Bcf/d	billion cubic feet per day
Bcfe	billion cubic feet equivalent
BOE	barrel of oil equivalent
btu	British thermal unit
Mbbl/d	thousand barrels per day
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mcfe	thousand cubic feet . equivalent
MMbbl	million barrels
MMbtu	million British thermal units
MMcf	million cubic feet
MMcf/d	million cubic feet per day
NGLs	natural gas liquids
Tcf	trillion cubic feet
Tcfe	trillion cubic feet equivalent

SUPPLEMENTAL INFORMATION (UNAUDITED)

FINANCIAL STATISTICS

year ended December 31	1997 Year	1997 Q4	1997 Q3	1997 Q2	1997 Q1	1996	1995	1994	1993
Net earnings ($ millions)	199.7	(31.6)	8.9	180.5	41.9	68.0	110.2	100.5	91.6
Per share ($) *Basic*	1.78	(0.29)	0.08	1.61	0.38	0.65	1.47	1.36	1.23
Fully diluted	1.73	(0.25)	0.08	1.54	0.36	0.65	1.44	1.34	1.21
Cash flow from operations ($ millions)	544.7	179.6	106.7	93.7	164.7	411.9	270.7	294.8	251.4
Per share ($) *Basic*	4.87	1.60	0.96	0.83	1.48	3.93	3.61	4.07	3.52
Fully diluted	4.67	1.54	0.92	0.80	1.41	3.82	3.51	3.88	3.33
Shares									
Common shares outstanding (millions)	112.1	112.1	112.1	111.9	111.7	111.5	75.5	74.5	70.0
Average common shares outstanding (millions)	111.9	111.9	111.8	111.7	111.6	104.9	75.0	71.7	69.7
Price range ($ per share)									
TSE									
High	35.50	34.25	35.50	35.25	33.90	33.25	23.13	22.75	23.63
Low	26.00	26.00	30.85	28.00	28.10	21.75	16.38	17.50	15.50
Close	27.75	27.75	33.40	34.75	28.50	32.70	21.88	17.88	18.50
NYSE – US$									
High	25.88	25.25	25.88	25.31	25.25	24.13	16.75	–	–
Low	18.25	18.25	22.06	20.25	20.63	16.00	15.00	–	–
Close	19.38	19.38	24.00	25.13	20.75	24.00	16.00	–	–
Share volume traded (millions)	81.2	28.2	22.2	12.6	18.2	71.7	42.3	48.5	26.1
Ratios									
Net debt-to-equity									
Corporate	29:71					32:68	25:75	35:65	35:65
Exploration and production	20:80					16:84	13:87	21:79	21:79
Transportation, storage and processing	60:40					89:11	64:36	64:36	64:36
Net debt-to-cash flow									
Exploration and production	1.1x					1.0x	0.8x	1.2x	1.2x
Interest coverage	5.8x					3.4x	4.8x	4.8x	5.3x
Return on equity	9.4%					3.7%	9.9%	10.1%	9.9%
Return on assets	6.3%					2.7%	5.9%	6.1%	5.1%
Dividend ($ per common share)	0.40					0.40	0.40	0.40	0.35

CAPITAL INVESTMENT

($ millions) year ended December 31	1997	1996	1995	1994	1993
Conventional oil and gas					
Conwest acquisition	$ –	$ 1,120.9	$ –	$ –	$ –
Western Canada	669.4	444.3	193.0	237.4	140.3
International	48.3	24.5	16.1	22.6	–
United States	9.5	3.1	–	–	–
Syncrude	48.8	29.4	28.1	18.9	36.0
Transportation, storage and processing					
Pipelines	159.6	364.0	14.9	7.6	11.5
Storage & Processing	37.7	33.9	15.6	48.7	56.8
Forest Products	–	–	31.1	29.6	8.6
Other	11.1	8.8	3.3	4.6	7.4
Total Capital Investment	984.4	2,028.9	302.1	369.4	260.6
Equity Investments	–	5.5	1.5	2.3	1.0
Total Capital and Equity Investments	$ 984.4	$ 2,034.4	$ 303.6	$ 371.7	$ 261.6

EXPLORATION AND PRODUCTION SEGMENTED INFORMATION

year ended December 31	Gas & NGLs			Conventional Oil			Syncrude			International			Total Exploration & Production		
($ millions)	1997	1996	1995	1997	1996	1995	1997	1996	1995	1997	1996	1995	1997	1996	1995
Revenue	$ 857.5	$ 634.6	$ 302.7	$ 175.1	$ 156.2	$ 86.6	$ 295.9	$ 266.5	$ 246.7	$ 16.2	$ 12.3	$ 8.4	$1,344.7	$1,069.6	$ 644.4
Royalties	75.0	48.5	17.9	31.2	30.5	14.7	28.0	56.3	30.7	1.9	1.7	1.0	136.1	137.0	64.3
Net Revenue	782.5	586.1	284.8	143.9	125.7	71.9	267.9	210.2	216.0	14.3	10.6	7.4	1,208.6	932.6	580.1
Operating costs	98.9	89.9	44.7	50.3	33.5	17.5	143.1	141.9	139.1	14.3	11.2	7.2	306.6	276.5	208.5
Cost of product purchased	378.2	246.4	126.9	–	–	–	–	–	–	–	–	–	378.2	246.4	126.9
Operating Cash Flow	305.4	249.8	113.2	93.6	92.2	54.4	124.8	68.3	76.9	(0.0)	(0.6)	0.2	523.8	409.7	244.7
DD&A	190.1	151.7	81.8	43.0	32.0	17.0	20.9	16.6	17.3	6.4	5.2	2.5	260.4	205.5	118.6
DD&A – Acquisitions	42.8	43.7	10.8	9.9	9.1	2.2	–	–	–	–	–	–	52.7	52.8	13.0
Additional DD&A	–	–	–	–	–	–	–	–	–	72.4	–	–	72.4	–	–
Segment Income	$ 72.5	$ 54.4	$ 20.6	$ 40.7	$ 51.1	$ 35.2	$ 103.9	$ 51.7	$ 59.6	$ (78.8)	$ (5.8)	$ (2.3)	138.3	151.4	113.1
Less:															
General and Administrative													20.9	28.1	29.1
Corporate DD&A													7.1	4.3	2.3
Interest, net													28.5	30.3	9.7
Income taxes													79.8	60.9	34.4
Net Earnings from Continuing Operations													$ 2.0	$ 27.8	$ 37.6
Earnings per Common Share															
Basic													$ 0.02	$ 0.27	$ 0.50
Fully diluted													$ 0.02	$ 0.27	$ 0.48
Cash Flow per Common Share															
Basic													$ 4.19	$ 3.36	$ 2.61
Fully diluted													$ 4.01	$ 3.26	$ 2.53

TRANSPORTATION, STORAGE AND PROCESSING SEGMENTED INFORMATION

	Pipelines			Gas Storage			Natural Gas Processing & Investments			Total Transportation Storage & Processing			Consolidated Total		
	1997	1996	1995	1997	1996	1995	1997	1996	1995	1997	1996	1995	1997	1996	1995
Revenue	$ 387.5	$ 92.8	$ 81.1	$ 25.8	$ 25.2	$ 18.9	$ 95.0	$ 71.5	$ 52.9	$ 508.3	$ 189.5	$ 152.9	$1,853.0	$1,259.1	$ 797.3
Royalties	–	–	–	–	–	–	–	–	–	–	–	–	136.1	137.0	64.3
Net Revenue	387.5	92.8	81.1	25.8	25.2	18.9	95.0	71.5	52.9	508.3	189.5	152.9	1,716.9	1,122.1	733.0
Operating costs	59.1	34.7	27.8	12.6	9.7	7.2	72.2	51.2	35.8	143.9	95.6	70.8	450.5	372.1	279.3
Cost of product purchased	252.8	–	–	–	–	–	–	–	–	252.8	–	–	631.0	246.4	126.9
Operating Cash Flow	75.6	58.1	53.3	13.2	15.5	11.7	22.8	20.3	17.1	111.6	93.9	82.1	635.4	503.6	326.8
DD&A	25.1	13.5	13.2	7.0	6.5	6.1	3.2	2.4	1.8	35.3	22.4	21.1	295.7	227.9	139.7
DD&A – Acquisitions	–	–	–	–	–	–	–	–	–	–	–	–	52.7	52.8	13.0
Additional DD&A	12.5	–	–	–	–	–	–	–	–	12.5	–	–	84.9	–	–
Dilution gain										178.0	–	–	178.0	–	–
Segment Income	$ 38.0	$ 44.6	$ 40.1	$ 6.2	$ 9.0	$ 5.6	$ 19.6	$ 17.9	$ 15.3	241.8	71.5	61.0	380.1	222.9	174.1
Less:															
General and Administrative										7.2	4.3	6.1	28.1	32.4	35.2
Corporate DD&A										1.0	0.8	0.8	8.1	5.1	3.1
Interest, net										20.4	23.1	20.1	48.9	53.4	29.8
Income taxes										0.7	18.1	15.3	80.5	79.0	49.7
Minority interest										14.8	–	–	14.8	–	–
Net Earnings from Continuing Operations										$ 197.7	$ 25.2	$ 18.7	199.7	53.0	56.3
Net Earnings from Discontinued Operations													–	15.0	53.9
Net Earnings													$ 199.7	$ 68.0	$ 110.2
Earnings per Common Share															
Basic										$ 1.76	$ 0.24	$ 0.25	$ 1.78	$ 0.65	$ 1.47
Fully diluted										$ 1.71	$ 0.24	$ 0.24	$ 1.73	$ 0.65	$ 1.44
Cash Flow per Common Share															
Basic										$ 0.68	$ 0.57	$ 0.67	$ 4.87	$ 3.93	$ 3.61
Fully diluted										$ 0.66	$ 0.56	$ 0.65	$ 4.67	$ 3.82	$ 3.51

EXPLORATION AND PRODUCTION CONSOLIDATED BALANCE SHEET

($ millions) as at December 31	1997	1996
Assets		
Current Assets	$ 305.4	$ 259.1
Capital Assets	3,088.4	2,832.0
Investments and Other Assets	25.7	6.5
	$ 3,419.5	$ 3,097.6
Liabilities		
Current Liabilities	$ 265.8	$ 240.9
Long-Term Debt	519.4	367.0
Deferred Income Taxes & Other Liabilities	623.2	532.5
	1,408.4	1,140.4
Capital Employed	2,011.1	1,957.2
	$ 3,419.5	$ 3,097.6

Note : Includes allocation of Corporate Assets and Liabilities

EXPLORATION AND PRODUCTION CONSOLIDATED STATEMENT OF OPERATING AND INVESTING ACTIVITIES

($ millions) year ended December 31	1997	1996	1995
Operating Activities			
Net earnings from Continuing Operations	$ 2.0	$ 27.8	$ 37.6
Depreciation, depletion and amortization	320.2	262.6	133.9
Additional depletion and amortization	72.4	–	–
Deferred income taxes	74.6	59.9	21.0
Other	(1.0)	1.5	3.3
Cash Flow from Operations	468.2	351.8	195.8
Investing Activities			
Acquisition	–	(1,120.9)	–
Capital investment	(780.4)	(508.3)	(239.9)
Proceeds on disposal of assets and investments	149.5	18.9	4.3
	$ (630.9)	$ (1,610.3)	$ (235.6)
Cash Flow from Operations per Common Share			
Basic	$ 4.19	$ 3.36	$ 2.61
Fully diluted	$ 4.01	$ 3.26	$ 2.53

TRANSPORTATION, STORAGE AND PROCESSING CONSOLIDATED BALANCE SHEET

($ millions) As at December 31	1997	1996
Assets		
Current Assets	$ 137.7	$ 58.7
Capital Assets	819.4	718.5
Investments and Other Assets	21.3	17.4
	$ 978.4	$ 794.6
Liabilities		
Current Liabilities	$ 122.5	$ 71.8
Long-Term Debt	497.7	601.3
Deferred Income Taxes & Other liabilities	41.4	48.7
Minority Interest	114.2	–
	775.8	721.8
Capital Employed	202.6	72.8
	$ 978.4	$ 794.6

Note : Includes allocation of Corporate Assets and Liabilities

TRANSPORTATION, STORAGE AND PROCESSING
CONSOLIDATED STATEMENT OF OPERATING AND INVESTING ACTIVITIES

($ millions) year ended December 31	1997	1996	1995
Operating Activities			
Net earnings from Continuing Operations	$ 197.7	$ 25.2	$ 18.7
Depreciation, depletion and amortization	36.3	23.2	21.9
Additional depletion and amortization	12.5	–	–
Deferred income taxes	(6.8)	10.7	3.2
Dilution gain	(178.0)	–	–
Minority interest	14.8	–	–
Other	–	1.0	6.6
Cash Flow from Operations	76.5	60.1	50.4
Investing Activities			
Capital investment – Express Pipeline System	(120.5)	(348.7)	–
Capital investment – Other	(83.5)	(51.0)	(31.1)
Proceeds on disposal of assets and investments	45.5	32.6	15.1
	$ (158.5)	$ (367.1)	$ (16.0)
Cash Flow from Operations per Common Share			
Basic	$ 0.68	$ 0.57	$ 0.67
Fully diluted	$ 0.66	$ 0.56	$ 0.65

OIL AND GAS OPERATING STATISTICS

SALES year ended December 31	Year	Q4	Q3	Q2	1997 Q1	1996	1995	1994	1993
Produced Gas (million cubic feet per day)	575	676	468	511	645	515	320	345	332
Oil and Natural Gas Liquids (barrels per day)									
Canada									
Syncrude	28,447	32,001	31,836	23,270	26,583	27,596	27,823	26,282	22,118
Conventional	23,954	25,784	25,674	21,394	22,912	19,507	11,549	9,267	7,939
Natural gas liquids	4,856	4,369	5,527	4,727	4,796	4,811	1,691	1,011	984
Total Canada	57,257	62,154	63,037	49,391	54,291	51,914	41,063	36,560	31,041
Argentina	1,683	1,419	1,643	1,963	1,709	1,241	1,090	260	–
Total	58,940	63,573	64,680	51,354	56,000	53,155	42,153	36,820	31,041
PER-UNIT RESULTS (Canada)									
Produced Gas ($ per thousand cubic feet)									
Price	2.04	2.35	1.76	1.82	2.10	1.77	1.40	1.88	1.75
Royalties	0.31	0.27	0.31	0.30	0.35	0.20	0.13	0.25	0.24
Operating costs	0.40	0.37	0.52	0.42	0.33	0.43	0.34	0.37	0.31
Net back	1.33	1.71	0.93	1.10	1.42	1.14	0.93	1.26	1.20
Conventional Oil ($ per barrel)									
Price	19.99	17.60	18.24	20.05	24.69	21.80	20.54	18.09	15.93
Royalties	3.58	3.35	3.19	2.92	4.91	4.28	3.48	2.63	2.01
Operating costs	5.74	6.68	5.18	5.40	5.64	4.69	4.15	4.77	4.92
Net back after hedge	10.67	7.57	9.87	11.73	14.14	12.83	12.91	10.69	9.00
Net back before hedge						16.17	13.05	10.69	9.00
Natural Gas Liquids ($ per barrel)									
Price	23.97	24.16	22.54	23.00	26.05	23.95	15.74	15.05	15.71
Royalties	6.11	7.63	4.93	5.75	6.51	6.70	5.25	3.98	4.04
Net back	17.86	16.53	17.61	17.25	19.54	17.25	10.49	11.07	11.67
Syncrude ($ per barrel)									
Price, net of tariff	27.80	27.63	26.83	26.78	30.13	25.68	23.69	21.76	20.97
Gross overriding royalty	0.69	0.16	0.77	0.93	1.05	0.71	0.60	0.56	0.86
Sulphur and other revenue	–	–	–	–	–	–	–	–	(0.19)
Royalties	2.70	2.24	2.83	2.62	3.17	5.58	3.02	1.03	0.64
Cash operating costs	13.82	11.46	11.05	20.45	14.22	13.71	13.70	14.99	15.20
Net back after hedge	11.97	14.09	13.72	4.64	13.79	7.10	7.57	6.30	5.80
Net back before hedge						10.50	7.71	6.30	5.80

OIL AND GAS OPERATING STATISTICS

GAS PRODUCTION BY AREA

year ended December 31 (million cubic feet per day)	Forecast 1998	1997	1996	1995	1994	1993
East	370	306	276	276	273	241
West	330	263	229	80	68	56
Cushion gas from storage	19	19	–	–	11	21
Total field capability	719	588	505	356	352	318
Storage withdrawal (injection)	(19)	(13)	10	(36)	(7)	14
Total produced gas sales	700	575	515	320	345	332

PRODUCED GAS SALES BY CONTRACT

(million cubic feet per day)						
TransCanada Gas Services	84	84	85	111	146	168
Pan-Alberta Gas	89	88	60	31	38	38
ProGas	130	89	50	22	11	6
Long-term direct	135	136	110	90	72	49
Other	262	178	210	66	78	71
Total	700	575	515	320	345	332

PURCHASED GAS TRANSACTIONS

(million cubic feet per day)	600	569	532	308	110	51

OIL AND NGL SALES BY AREA

(barrels per day)						
Canada						
Syncrude	30,000	28,447	27,596	27,823	26,282	22,118
East	18,000	17,389	12,742	10,751	8,389	7,096
West	13,000	11,421	11,576	2,489	1,889	1,827
Total Canada	61,000	57,257	51,914	41,063	36,560	31,041
Argentina	2,000	1,683	1,241	1,090	260	–
Total	63,000	58,940	53,155	42,153	36,820	31,041

RESERVES RECONCILIATION		Natural Gas (billion cubic feet)			Conventional Oil & NGLs (million barrels)			Syncrude (million barrels)			Argentina (million barrels)	
(before royalties)	Prov.	Prob.	Total	Prov.	Prob.	Total	Prov.	Prob.	Total	Prov.	Prob.	Total
1995												
Balance at December 31, 1994	1,522	369	1,891	26.0	14.8	40.8	269.0	–	269.0	1.3	2.9	4.2
Revisions of established pools	(7)	(8)	(15)	(0.3)	(0.3)	(0.6)	21.0	–	21.0	–	(0.4)	(0.4)
Discoveries and extensions	93	45	138	8.5	15.6	24.1	–	–	–	–	–	–
Acquisition of reserves – net	26	1	27	(0.2)	(0.3)	(0.5)	–	–	–	0.8	–	0.8
Prior period adjustment (note 2)	(6)	(28)	(34)	(2.3)	(5.1)	(7.4)	–	–	–	–	–	–
Production	(117)	–	(117)	(4.8)	–	(4.8)	(10.0)	–	(10.0)	(0.4)	–	(0.4)
Balance at December 31, 1995 – restated	1,511	379	1,890	26.9	24.7	51.6	280.0	–	280.0	1.7	2.5	4.2
1996												
Discoveries and extensions	251	207	458	17.8	1.1	18.9	–	490.0	490.0	0.4	(0.7)	(0.3)
Acquisition of reserves – net	615	285	900	33.2	15.0	48.2	–	–	–	–	–	–
Production	(188)	–	(188)	(8.9)	–	(8.9)	(11.0)	–	(11.0)	(0.6)	–	(0.6)
Balance at December 31, 1996	2,189	871	3,060	69.0	40.8	109.8	269.0	490.0	759.0	1.5	1.8	3.3
1997												
Revisions of established pools	**72**	**(30)**	**42**	**2.0**	**(0.9)**	**1.1**	–	–	–	–	–	–
Discoveries and extensions	**571**	**280**	**851**	**22.0**	**3.2**	**25.2**	**122.4**	**(143.3)**	**(20.9)**	**1.3**	**0.3**	**1.6**
Acquisition of reserves – net	**(33)**	**(21)**	**(54)**	**(5.8)**	**(2.4)**	**(8.2)**	–	–	–	–	–	–
Production	**(214)**	–	**(214)**	**(10.4)**	–	**(10.4)**	**(10.3)**	–	**(10.3)**	**(0.7)**	–	**(0.7)**
Balance at December 31, 1997	**2,585**	**1,100**	**3,685**	**76.8**	**40.7**	**117.5**	**381.1**	**346.7**	**727.8**	**2.1**	**2.1**	**4.2**

Note 1 Year-end 1997 and 1996 conventional reserves balances have been independently estimated by consulting engineers McDaniel & Associates Consultants Ltd.and Gilbert Laustsen Jung Associates Ltd.
Note 2 The prior period adjustment reflects an independent review of AEC's conventional reserves base as at December 31, 1995. Accordingly the changes have been given effect on a retroactive basis.

LANDHOLDINGS AT YEAR-END 1997	Western Canada		Montana/North Dakota		Total North America		International		Total
thousand acres	Developed	Undeveloped	Developed	Undeveloped	Developed	Undeveloped	Developed	Undeveloped	Undeveloped
Gross	1,864	6,822	57	570	**1,921**	**7,392**	5	2,945	**10,337**
Net	1,456	6,091	10	543	**1,466**	**6,634**	5	2,945	**9,579**

WELLS DRILLED (WESTERN CANADA)	1997		1996		1995	
	Gross	Net	Gross	Net	Gross	Net
Exploration						
Gas	**82**	**76**	68	65	19	19
Oil	**20**	**17**	22	19	5	5
Cased	**8**	**7**	11	11	4	4
Dry and abandoned	**35**	**33**	42	40	18	16
Total	**145**	**133**	143	135	46	44
Success rate (percent)	**76**	**75**	71	70	61	62
Development						
Gas	**160**	**133**	103	86	110	100
Oil	**127**	**88**	172	135	76	66
Cased	**27**	**26**	14	13	6	4
Dry and abandoned	**18**	**11**	27	24	27	21
Total	**332**	**258**	316	258	219	191
Success rate (percent)	**95**	**96**	91	91	88	89

OIL AND GAS OPERATING STATISTICS

	1997	1996	1995	1994	1993
Undeveloped Acreage (thousand acres)					
North America					
Gross	**7,392**	5,558	3,240	2,017	1,777
Net	**6,634**	4,657	2,667	1,731	1,490
International					
Gross	**2,945**	2,921	452	372	282
Net	**2,945**	2,711	452	372	282
Reserves (before royalties)					
Gas (billion cubic feet)					
Proven	**2,585**	2,189	1,511	1,522	1,482
Probable	**1,100**	871	379	369	321
Total	**3,685**	3,060	1,890	1,891	1,803
Conventional Oil and Natural Gas Liquids (million barrels)					
Proven	**76.8**	69.0	26.9	26.0	18.8
Probable	**40.7**	40.8	24.7	14.8	8.9
Total	**117.5**	109.8	51.6	40.8	27.7
Syncrude (million barrels)	**727.8**	759.0	280.0	269.0	246.0
Argentina Oil (million barrels)	**4.2**	3.3	4.2	4.2	–
Finding and Development Cost Calculation					
Proven and Probable (Western Canada)					
Conventional Oil and Gas Investment ($ millions)					
Exploration	**318.0**	168.2	82.7	66.1	53.8
Development	**343.6**	256.5	100.0	105.0	68.9
Acquisitions	**7.8**	19.6	9.4	66.3	17.6
Total finding and development costs	**669.4**	444.3	192.1	237.4	140.3
Proven Plus Probable Reserves Added					
Gas (billion cubic feet)					
Discoveries and extensions	**851.0**	458.0	138.4	94.1	84.9
Revisions	**41.9**	–	(49.3)	14.0	0.8
Acquisitions	**–**	23.0	38.2	140.9	99.6
Total	**892.9**	481.0	127.3	249.0	185.3
Conventional Oil and Natural Gas Liquids (million barrels)					
Discoveries and extensions	**25.2**	18.9	24.1	12.6	5.7
Revisions	**0.7**	–	(7.9)	6.0	(1.2)
Acquisitions	**–**	1.2	–	0.1	1.3
Total	**25.9**	20.1	16.2	18.7	5.8
Total Reserve Additions 10:1 (barrel of oil equivalent)	**115.2**	68.2	28.9	43.6	24.3
Finding and Development Costs ($ per barrel of oil equivalent)					
10:1	**5.81**	6.51	6.64	5.44	5.77
6:1	**3.83**	4.44	5.13	3.94	3.82

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ADDITIONAL INFORMATION

For additional investor relations information please contact Brian C. Ferguson, Director, Corporate Relations & Corporate Secretary, at the Registered Office address.

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ANNUAL MEETING OF SHAREHOLDERS

Wednesday, April 8, 1998
at 3:00 p.m. local time
Calgary Convention Centre
120 - 9 Avenue S.E.
Calgary, Alberta

Shareholders of Alberta Energy Company Ltd. are encouraged to attend. Those unable to do so are asked to sign and return the form of proxy mailed with this report.

AEC